Guide to
ORGANISATION DESIGN

Creating high-performing and adaptable enterprises

NAOMI STANFORD

SECOND EDITION

GUIDE TO ORGANISATION DESIGN

DR NAOMI STANFORD is a consultant, teacher and author in the field of organisation design and development in all its manifestations. She has experience both as a corporate employee of large multinational companies, including Price Waterhouse, British Airways, Marks & Spencer and Xerox, and as a consultant to a range of organisations in the government, non-profit and private sectors. She is the author of five books and her blog, www.naomistanford.com, showcases her interests.

OTHER ECONOMIST BOOKS

Guide to Analysing Companies
Guide to Business Modelling
Guide to Business Planning
Guide to Cash Management
Guide to Commodities
Guide to Country Risk
Guide to Decision Making
Guide to Economic Indicators
Guide to Emerging Markets
Guide to the European Union
Guide to Financial Management
Guide to Financial Markets
Guide to Hedge Funds
Guide to Investment Strategy
Guide to Management Ideas and Gurus
Guide to Managing Growth
Guide to Project Management
Guide to Supply Chain Management
Numbers Guide
Style Guide

Book of Business Quotations
Book of Isms
Brands and Branding
Business Consulting
Business Strategy
Buying Professional Services
The Chief Financial Officer
Economics
Frugal Innovation
Managing Talent
Managing Uncertainty
Marketing
Marketing for Growth
Megachange – the world in 2050
Modern Warfare, Intelligence and Deterrence
Organisation Culture
Successful Strategy Execution

Unhappy Union

Directors: an A–Z Guide
Economics: an A–Z Guide
Investment: an A–Z Guide
Negotiation: an A–Z Guide

Pocket World in Figures

The Economist

GUIDE TO ORGANISATION DESIGN

Creating high-performing and adaptable enterprises

Second edition

Naomi Stanford

Contents

Divisional/customer structure
Matrix structure
Network structure
Cluster structure
"Life-form" structure
Structure decisions
Layers and spans
Reflections on the case study
Tools for the case study
Summary

4 Planning and sequencing the organisation design
High-level design plan and sequence
The business case for change
The organisation design programme
The four phases of the design process
Reflections on the case study
Tools for the case study
Summary

5 Measurement
Choosing measurement tools
Measurement principles
Reflections on the case study
Tools for the case study
Summary

6 Stakeholder engagement
Five steps of the stakeholder engagement process
Factors indicating stakeholder engagement
Reflections on the case study
Tools for the case study
Summary

7 Leadership and organisation design
Formal leadership in organisation design
Informal leadership
Working together

Case studies

Figures

Tables

Acknowledgements

MY THANKS TO THE PEOPLE who have contributed directly and indirectly to this book. They include colleagues and employees of the organisations I have worked with, those who have reviewed chapters, friends who have tracked my progress and the family members who have lived with the process of getting this book to print: special thanks go to Hannah Barugh, Rosa Barugh and Roger Woolford.

Stephen Brough has been a wonderful editor who has contributed sound advice and a great talent for cutting out the jargon. Thanks also to Penny Williams for her meticulous and detailed editing in preparing the book for publication.

I would also like to acknowledge the good work of Freedom from Torture (www.freedomfromtorture.org), to which the royalties from this book are going. If only such an organisation did not have to exist.

Preface

I CAME TO WRITE THIS BOOK to answer the many questions that people have about the constant "reorganisations" and "restructurings" that they willingly or unwillingly participate in during the course of their working life.

I currently work with both the initiators of these reorganisations and the people whose working lives are changed as a result of them. Both parties have similar concerns:

- How do I know that the reorganisation is really necessary?
- Is there any evidence suggesting that it is good to change things per se, or does it always depend on the specific change?
- How do you know if organisation redesign has worked?
- Is there any hard evidence about the absolute pros and cons of different structures?
- Is there a step-by-step guide I could follow?

In my previous work, as an employee of several large multinational companies, over time I too had to reapply for my job, was laid off, had five new managers in the course of six months, was relocated, had to lay off staff myself, and so on – all as a result of various reorganisations. But during these experiences I also worked with the changes and helped people approach restructuring not with dread but with a certain sense of excitement and energy.

From these experiences I learned to think of organisations both in the more traditional way as whole systems that are inevitably shifting and responding as their context changes, and in the newer way as complex adaptive organisms evolving in order to survive. With these perspectives I discovered that there is a lot more to reorganisation than tinkering with the chart that represents the structure.

To answer the types of questions listed above, which I too had asked, I

looked at all the components that contribute to organisational performance and found that it is more likely to improve if leaders and managers take a wider perspective than simply focusing on the structure: there is less rework, people are happier with the outcomes and it makes it easier to align all the organisational elements.

I also recognised that organisational alignment is always temporary, because things change. The design has to be adaptable; it must evolve and it must take into account the interests and views of all those with a stake in the business.

Lou Gerstner (former CEO of IBM) spoke well when congratulating his staff:

> *In my eyes you stand tall. You did all this – the milestones passed, the victories just ahead, and those far down the road. Thank you. Take a bow. You've earned it. And, of course, I can't resist: let's all get right back to work because we've just begun!*

Seven years later, as I write the second edition of this book, I am as absorbed in organisation design as ever. I have worked in several African countries, in China, in Europe as well as America, and I am now back in the UK. All organisations are the same and all are different, but the world in which they operate is certainly different. When I wrote the first edition there was no social media, robots were not in the workplace, the net generation was still in cradles, there had been no global financial crash and the BRICs (Brazil, Russia, India, China) had not roared into prominence. Thus organisation design is different. It is about designing for collaborative technologies, for the "voice of the customer", for acknowledgement that expertise and access to information can lie at any organisational level.

But some things remain the same. As I said in 2007, there is no constant: one design gives way to the next. This book is written for leaders and managers looking for practical advice on tackling the business performance issues that face them. I have updated it to reflect the context changes mentioned above, but the structure remains as in the first edition.

Each chapter has information about the topic in hand, illustrative examples from organisations, a case study, and some practical and immediately usable tools. Note that all the examples given in this book report the situation as it was at the time, and they are only partial: they serve as

illustrations of points, not as enduring truths about any specific organisation. The case studies are all disguised and somewhat fictionalised examples of organisations I have worked with. The tools are ones I find helpful and use regularly. I hope as you look through and read the book you will find hints, tips and approaches that you can apply to good result in your organisation. And I hope you will enjoy your organisation design work as much as I enjoy mine.

Naomi Stanford
January 2015
www.naomistanford.com
Twitter @Naomiorgdesign

1 Introducing organisation design

Design is a plan for arranging elements in such a way as best to accomplish a particular purpose.

Charles Eames, 1969

STORIES ABOUT COMPANY START-UPS run like this: "We had a great idea. We got the funding. We hired people. We did well for a bit. Something happened. We fell apart." This story is sadly typical. In the US, for example, a new business is unlikely to be running five years after being started, as Figure 1.1 illustrates.[1]

The picture for start-ups in the UK is similarly risky. In 2013, the Office for National Statistics reported that the five-year survival rate for businesses born in 2007 and still active in 2012 was 44%, with a higher survival rate for those in the health sector (56.1%) and a lower rate for those in hotel and catering (37%).

Business failure is not limited to start-ups. For example, in the UK retail sector during 2013, 49 retailers (all having traded for more than five years) declared bankruptcy. Overall this meant 2,500 stores closed and 25,140 employees were affected. In 2014, the Centre for Retail Research reported: "The period from Christmas 2012 to March 2013 was horrid with retailers like Blockbuster, HMV, Jessops and Comet going into administration."

Most businesses – established or start-up – fail. This failure is not necessarily total but is evident in some aspects: the businesses do not control costs, they let their customers defect, or they bring the wrong products or services to market. These failures result in low business performance and all-round stakeholder dissatisfaction.

FIG 1.1 **The survival of start-ups**

Legend:
— 1994 BLS est   — 2005 BLS est
1995 BLS est   — 2005 census firms
-- 2000 BLS est   — 2005 census est

Values along curve: 100, 80, 69, 61, 55, 50, 46, 42, 39, 36, 34, 32, 31, 29, 28, 26, 25

X-axis: 0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 — Years

Y-axis: 0 20 40 60 80 100 %
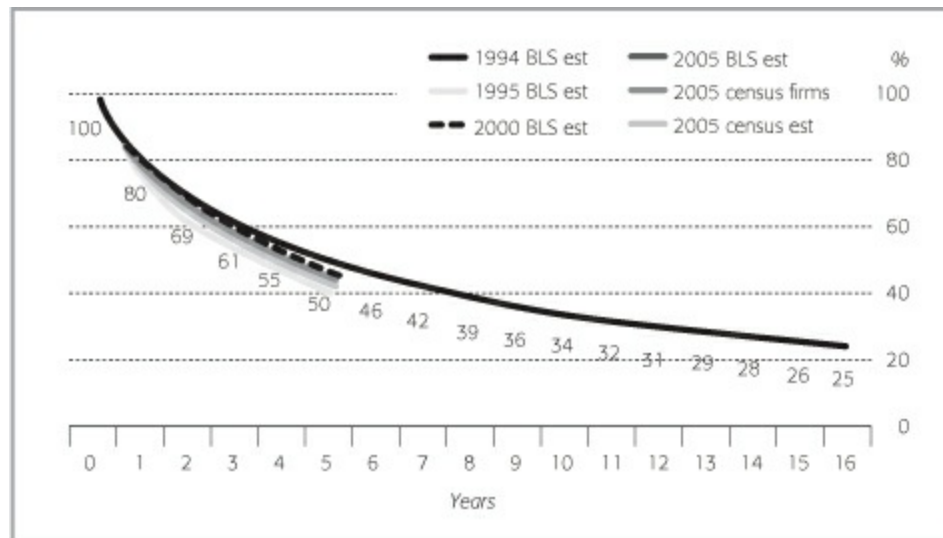
Sources: Created from data from Longitudinal Business Database 1977–2010, Census; Business Employment Dynamics 1994–2010, Bureau of Labor Statistics

Risk of failure in these and other aspects can be minimised or even completely avoided by consciously designing a new organisation or redesigning an existing one in such a way that it performs well and adapts readily to changing circumstances. This means assessing all the elements of an organisation and its operating environment and acting to bring them into alignment as far as is possible given that an organisation is in a continuous state of flux.

Organisation design, as defined in this book, is how people and work are organised to carry out an organisation's strategy and achieve its aims. Intrinsic to the strategy and aims of any well-run organisation will be ensuring the experience for customers and employees is of high quality. This involves aligning the organisation with the strategy and creating coherent designs, while building trust among the principal stakeholders. This definition covers both the formal (for example, policies) and the informal (for example, what the gossip is) aspects of the organisation.

The outcome of shaping and nudging all the components of an enterprise towards the achievement of an agreed mission is a business process that "is so critical it should be on the agenda of every meeting in every single department".[2] Curiously, however, executives rarely talk about it as an everyday issue, and even more rarely reflect on the interactions between the complex social dynamics and the organisational frameworks in order to redesign their business for success. What they often do instead is act from a

position where they can control their environment and reorganise or restructure. But as will become clear later in this chapter, a focus simply on organisation structure (the organisation chart) seldom has the desired effect. Peter Senge, in his book *The Fifth Discipline*, points out why intentional organisation design work is uncommon:[3]

> *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 designed. If its design is not being improved all the time – the British cycling team that won a gold medal at the 2012 Olympics called it "the aggregation of marginal gains" – the organisation will not be successful. Six principles underlie effective and reflective organisation design:

- Organisation design is driven by the business strategy and the operating context (not by a new IT system, a new leader wanting to make an impact, or some other non-business reason).
- Organisation design means holistic thinking about the organisation: its systems, structures, people, performance measures, processes and culture, and the way the whole operates in the environment.
- Designing for the future is a better bet than designing for now.
- Organisation design happens as much through social interactions and conversations as through planning.
- Organisation design is not to be undertaken lightly: it is resource intensive even when it is going well.
- Organisation design is a fundamental, continuing process, not a repair job.

This chapter discusses what organisation design is and what it is not and then looks at these six principles. Note that throughout "organisation" means a discrete unit of operation or whole enterprise and includes the formal and informal aspects of this. Following the principles of hierarchy theory (levels of organisation), the formal elements – departments and divisions, systems and business processes – can be designed independently as long as interfaces and boundaries with the wider organisation form part of the design. Herbert Simon's parable of the two watchmakers (see below) 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.

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

But think about the two watchmakers as human beings – it is their personalities, habits, behaviours and interactions with others that shape the

type of system that they decide, or allow without conscious decision, to use.

From this it is clear that aiming to "design" the informal, human aspects of the organisation would not be easy. They constitute what Ralph Stacey, a management professor, calls the "patterns of relationships, both good and bad, between people". He notes:[4]

> 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.

Organisation design: what it is and is not

Organisation design is arranging how to carry out a business's purpose and strategy and achieve its aims. Therefore there are choices and decisions made around "arranging" that keep the organisation adaptable to the operating context (see Figure 1.2).

A reorganisation or restructuring that focuses – sometimes solely – on the structural aspects is not organisation design and is rarely successful. Ask anyone who has been involved in this type of reorganisation and there will be stories of confusion, exasperation and stress, and of plummeting morale, motivation and productivity. Most people who have worked in organisations have had this experience. So why is it that initiatives aimed at revitalisation, renewal and performance improvement so often miss the mark? The simple answer is that focus on the structure is both not enough and not the right start-point.

FIG 1.2 **Alignment of an organisation's components in their context**
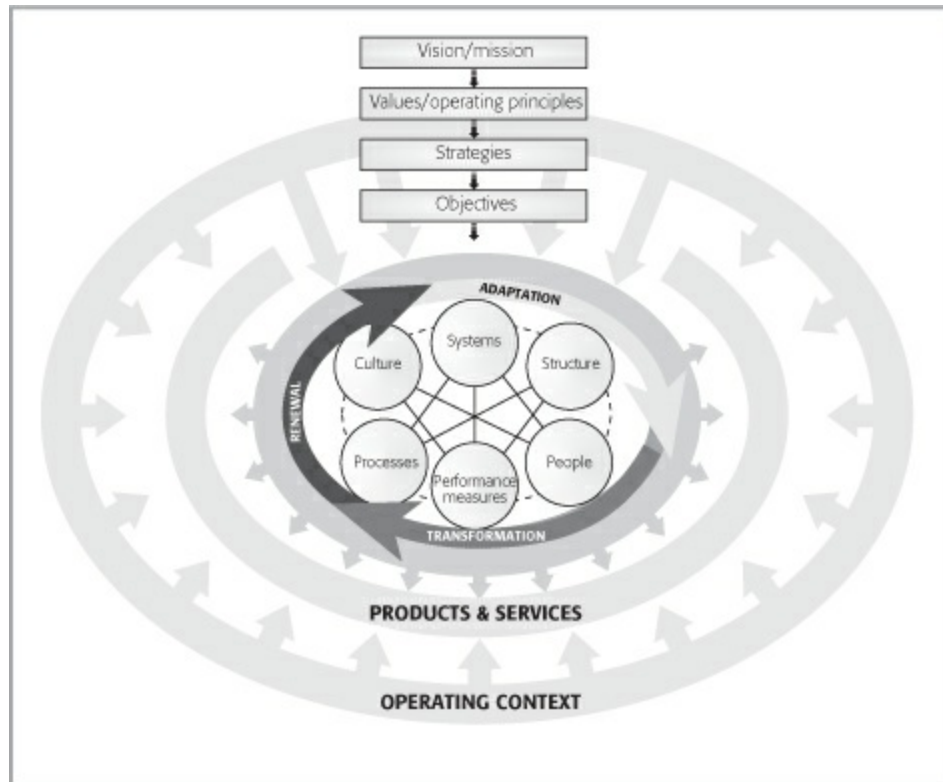
The following example illustrates the point that reorganising from a structural start-point is misguided. A new vice-president has been recruited to lead a division. The division structure looks like that shown in Figure 1.3.

FIG 1.3 **Existing division structure**
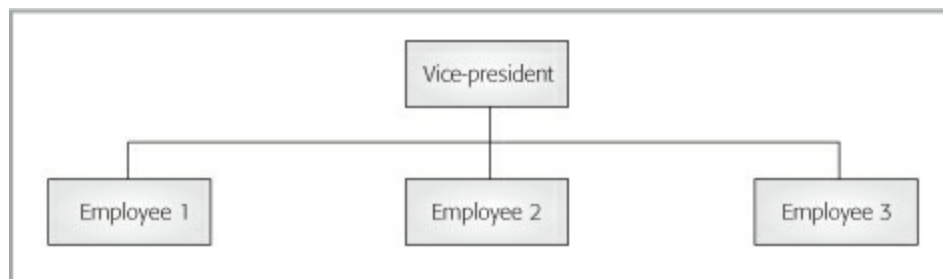
The new vice-president decides (without consulting anyone) that the division would be more effective if the organisation chart looked like Figure 1.4. So far, this looks like a simple change (or perhaps not a change at all). But the new positioning of employee 1 raises questions; for example:

FIG 1.4 **New division structure**
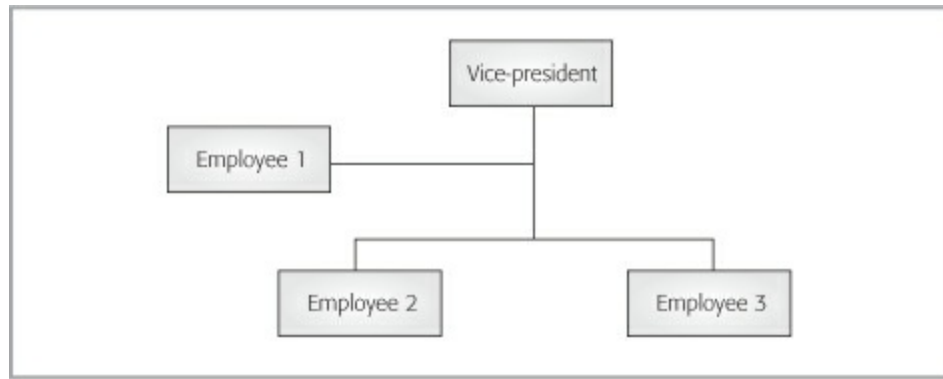
- Why was this change initiated?
- Is employee 1 now in a different role?
- Is employee 1 now superior to employees 2 and 3, or has employee 1 been demoted to the role of the vice-president's assistant?
- Do employee 1's responsibilities change in the new role? If so, how – by adding to them and/or dropping some?
- If responsibilities are to be dropped, who, if anyone, is to take them on?
- How will this structural change affect information flow?
- How will this structural change affect relationships among the three employees?
- What effect will the change have on the business's systems if the workflow changes?
- How will customers be affected?
- What effect will this change have on other departments?

What seems a simple structuring tweak is actually complex, and the complexity is increased when more hierarchical levels are involved. Extending the example, Figure 1.5 shows that the new structuring could change the dynamics of the division substantially (depending on the answers to the various questions), not only because the relationships between the players are changed.

FIG 1.5 **The new structure (right-hand side) has complex organisational impacts**
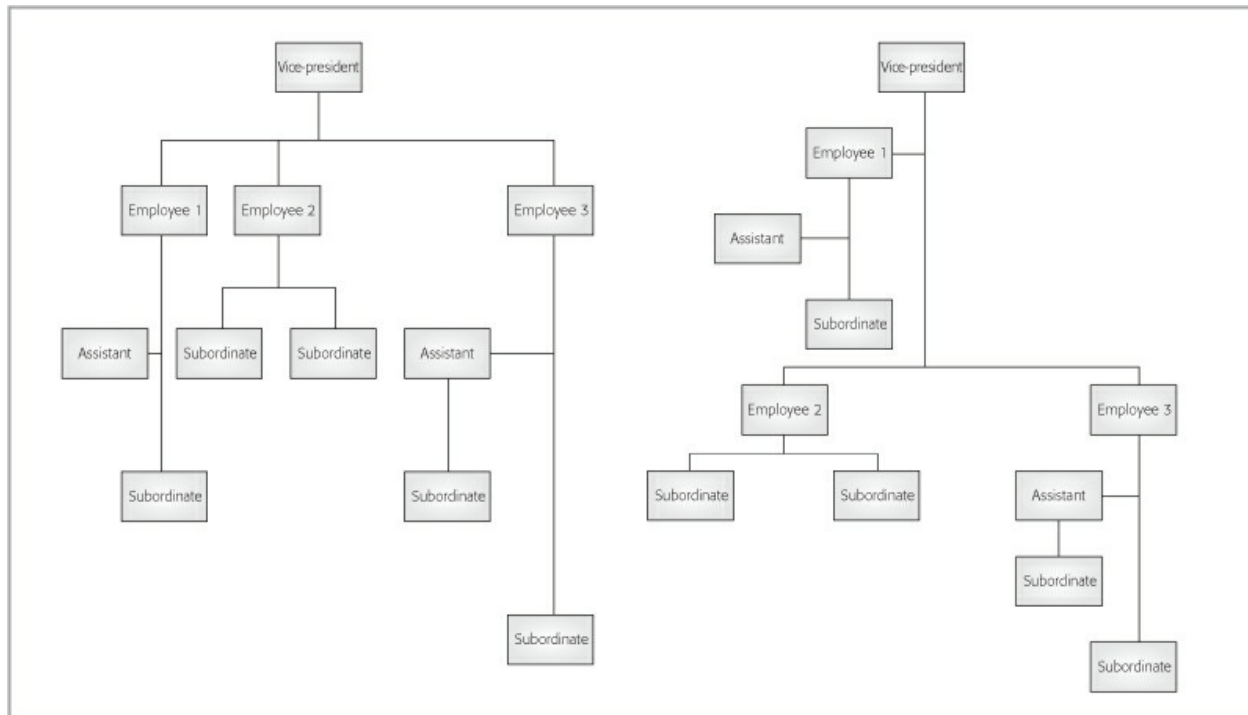
TABLE 1.1 **Organisation structure: one aspect of design**

What does the organisation chart tell you?	What doesn't the organisation chart tell you?
Hierarchy	Goals, objectives, strategy, values, principles, protocols, outcomes of the organisation unit
Reporting lines, who reports to who	Workflows
Number of jobs, teams, employees (not full-time equivalent)	What the work is, how the work gets done, who does the work
Names of jobs, teams, employees	Who is accountable for the work, decision-making clarity, delegations
Core business – how work is sectioned	Relationships
	Interactions, interdependencies, links between areas of the business
Core leadership team(s)	Levels of influence, "real influence", power
Gender	Expectations
Job vacancies	Employee work styles, performance, areas of expertise,

	skill sets, skill gaps
	Employee photos – so I know what they look like when I go to meet them/have questions for them
	Does the structure work? Why does it work/not work?
	Processes and systems
	Workforce movement
	Criteria for matching employees to roles
	Succession planning, critical roles
	Work arrangements (part-time, full-time)

Source: Transport Accident Commission, Victoria, Australia

This example shows why taking a structurally focused approach to organisational design is risky. Although it looks straightforward, it is likely to have numerous impacts and consequences and bring with it potential derailers. Table 1.1 lists some of the many complex aspects of design that are not visible on an organisation chart and that need to be thought about in any design work.

To recap, organisation design is more than what is called reorganisation and different from a purely structural response to trying to solve a business problem. Organisation design starts with the business vision/mission (see Figure 1.2) and then involves consideration of all the elements of the organisation in its environment. Too little consistent, collaborative and strategic thought at the start of organisation design work almost guarantees failure. Although such work may (or may not) result in structural change, it involves much more than changing the lines and boxes on the traditional organisation chart.

Organisation design is driven by strategy and operating context

Look again at Figure 1.2. The design process starts with leadership agreement on what the organisational vision/mission, values/operating principles, strategies, objectives and tactics are. This implies strategic thinking and strategic planning, which are different activities that should not be confused. Eton Lawrence summarises Henry Mintzberg's distinction between the two:[5]

Mintzberg argues that strategic planning is the systematic programming

of pre-identified strategies from which an action plan is developed. Strategic thinking, on the other hand, is a synthesising process utilising intuition and creativity whose outcome is an integrated perspective of the enterprise. Briefly put strategic thinking is the "what", and strategic planning is the "how", and you can't know how you're going to do something until you know what it is that you want to do.

Note that the operating context surrounds the graphic in Figure 1.2. It is constantly changing and is a critical variable in organisation design work. Knowing the operating context helps determine the need for and scope of organisation design. Having determined the business strategy, the next step in organisation design is to assess the operating context. A simple tool such as the steeples mnemonic illustrated in Table 1.2 will help (the cells have been completed for a hypothetical organisation).

TABLE 1.2 **Design the organisation with the operating context in mind**

	Context factors external to the organisation	**Context factors internal to the organisation**
Social	The characteristics of the available workforce change (eg, local labour markets cannot supply skills needed)	There is a new leader. Workforce demographics shift (eg, large numbers of employees are due to retire in a particular period)
Technological	A new technology has an impact on the business (eg, 3D printing, service robots)	System integration is proposed to iron out duplication of work
Environmental	A new standard comes into play (eg, wood products sell better if they are made from sustainable forests)	There is a crisis with a product (eg, contamination or technical failure resulting in recalls)
Economic	Import/export barriers or tariffs change	A new business strategy is initiated. A competitor suddenly starts to grab market share
Political	There is a change in government requiring realignment of the organisation's lobbying	The chairman and the CEO disagree. Board members take sides
Legal	A new legal requirement	An existing compliance

	requires compliance (eg, the Affordable Healthcare Act in the US)	standard has resulted in duplication of work (several departments are collecting the same information)
Ethical	There is increasing public concern about corruption in business	The wage disparity between the highest and lowest paid workers is considered too great
Things that do not fit into other categories	Customers are drifting to competitors. The firm becomes the target of a hostile bid	There is a disaster requiring recovery plans to be put into action

The example operating context shown in Table 1.2 implies three things:

- Context factors do not come in neat single packets. Whether a business is new or established, it is usually responding to several simultaneously.
- The context is not static. As it changes aspects of it become more or less important.
- Businesses must be designed to be adaptable to and accommodating of constant context changes.

Organisation design requires holistic thinking

Look once more at Figure 1.2. When the organisational vision/mission, values/operating principles, strategies, objectives and tactics have been determined and the operating context assessed, consider the systems, structure, people, performance measures, processes and culture. Organisation design involves enabling these to work in concert, in line with the vision/mission, and so on, and in response to the changing operating context. Imagine the organisation is a gyroscope that needs to be kept both stable and moving. Organisation design aims to keep organisational integrity and also organisational flexibility and adaptability to the context.

Delivery of desired business results comes from focusing all the organisational elements on the achievement of the vision/mission. Reflecting on and planning an appropriate design to do this is important because poor designs result in poor outcomes. Whether the business is new or established, good design decisions that involve the whole formal and informal enterprise and its operating context will help give a competitive edge, minimise risk and

raise performance levels.

This holistic approach to organisation design is evident in the case of W.L. Gore & Associates, a privately owned company consistently rated as a high performer:

> *W.L. Gore & Associates is a uniquely creative, technology-driven enterprise focused on discovery and product innovation. Gore is known worldwide for our fundamental understanding of expanded fluoropolymers.*
>
> *At Gore, we take our reputation for product leadership seriously, continually delivering new products and better solutions to the world. Gore's products are designed to be the highest quality in their class and revolutionary in their effect. Gore couples … advanced technical capability with an absolute commitment to product integrity, which we call fitness for use. We test on many levels to ensure that our products do what we say they will do, consistently and reliably.*
>
> *How we work at Gore sets us apart. Since Bill Gore founded the company in 1958, Gore has been a team-based, flat lattice organisation that fosters personal initiative. There are no traditional organisational charts, no chains of command, nor predetermined channels of communication.*
>
> *Instead, we communicate directly with each other and are accountable to fellow members of our multi-disciplined teams. We encourage hands-on innovation, involving those closest to a project in decision-making. Teams organise around opportunities and leaders emerge. This unique kind of corporate structure has proven to be a significant contributor to associate satisfaction and retention.*
>
> *We work hard at maximising individual potential, maintaining an emphasis on product integrity, and cultivating an environment where creativity can flourish. A fundamental belief in our people and their abilities continues to be the key to our success. (W. L. Gore & Associates, 2014)*

Note that to achieve its business strategy and maintain high performance, Gore carefully considers each of the organisational elements and their interdependencies. Table 1.3 illustrates with extracts from the paragraphs above.

One of the strategies that Gore has implemented is that no divisions in the company should comprise more than 150 people. By staying at this size Gore is able to retain the innovation, peer pressure and interconnectedness that enable it to consistently deliver outstanding results. However, this means that the company is constantly dividing and redividing to maintain its edge. (Note too that at Gore there are no standard job descriptions and there is a collaborative process for determining pay, both enabling internal job mobility.)

This shows that Gore's organisational elements are aligned. The strategy is clear, and the lattice structure, team-based working, lack of hierarchy, easy communication flows, reward systems and interpersonal accountability all promote consistent high performance that delivers the strategy.

TABLE 1.3 **Alignment of Gore's organisation elements**

System element	Gore example
Vision/mission	A uniquely inventive, technology-driven enterprise focused on discovery and product innovation
Structure	A team-based, flat, lattice organisation
People	We work hard at maximising individual potential, maintaining an emphasis on product integrity, and cultivating an environment where creativity can flourish
Performance measures	Demonstrating special knowledge, skill, or experience that advances a business objective
Culture	Fosters personal initiative, encourages innovation, promotes person-to-person communication
Processes (example is testing process)	We test on many levels to ensure that our products do what we say they will do, consistently and reliably
Systems (example is quality systems)	Gore's products are designed to be the highest quality in their class and revolutionary in their effect

There is, however, no blueprint for design. Another company could not use the Gore design and achieve the same results. Just as there are many designs of vehicles (designed for specific customer segments and purposes), so the design of any company must reflect its particular styles and cultures of operation. Each enterprise has to determine its own design, and also its own timing and conditions for design work (but it must relate these to the business strategy and the operating context).

Having said that organisation design is both enterprise and context specific, there are nevertheless some generally applicable ways of approaching design work, starting with five rules of thumb.

Five rules of thumb for designing

1   Design when there is a compelling reason

Without a compelling reason to design it will be difficult to get people behind and engaged in any initiative. Business jargon talks about "the burning platform" needed to drive major change. Part of a decision to design rests on making a strong, strategic, widely accepted business case for it – based on the operating context. If there is no business case for design or redesign, it is not going to work.

2   Develop options before deciding on design

Scenarios or simulations can help to develop options. Mapping the workflow and identifying the impact that the context and circumstances have on it give clues on whether design is necessary or whether some other interventions will be effective.

Using a range of methods helps decide at a tactical level whether organisation design work makes sense or whether the issues can be addressed by other approaches (for example, technical skills training).

3   Choose the right time to design

Design work is undertaken in a dynamic environment in which the organisation, like a gyroscope, needs to be kept both stable and moving. Recognise that any design is in a continuous state of change, and choosing the right time to make intentional design changes is a matter of judgment. However, for these to stand the best chance of success:

- establish a sense of urgency (the "burning platform" mentioned previously);
- form what John Kotter, an author and academic, calls a powerful "guiding coalition" – that is a group of people with enough power and influence to lead the organisation through the design;
- create a picture of the redesigned organisation in vivid terms that people will recognise and want to be part of (or can decide not to be

part of – in this case plan to help them exit gracefully).

4   Look for clues that things are out of alignment

Assuming that there are frequent and regular measures of business results, look for clues that things are out of alignment. For example, Gore already knows that when unit size gets to more than about 200, people issues arise, innovation is lost and associates stop seeing the whole picture. Blogs, Twitter, Facebook and other social-media channels are a good source of clues about organisational misalignment, as are the types of rumours or gossip that circulate as people talk to each other.

Lack of current alignment is a good signal for design work. However, if things are aligned, there is usually no reason to initiate design work (it is resource intensive even when going well).

5   Stay alert to the future

Identifying that things are currently aligned is no cause for complacency. The context is constantly shifting and this requires alert, continuous and well-executed environmental scanning. Organisations should be aware that they may have to do design work at any point, so they should take steps to build or maintain a culture where change, innovation and forward thinking are welcomed. Gore's challenge has been to scale its management model as the organisation grows in size, across geographies and cultures, and into new product/market segments. The way it is tackling this includes:[6]

- recognising that the main job of leaders at Gore is to make the rest of the organisation successful;
- involving the workforce in discussions on scalability – "we asked that question [about scalability] at 50 associates … at 500 … we'll ask it again at 10,000";
- pushing authority out to operating teams that are much better equipped to make the right decision at the right moment;
- knowing that "we're still evolving; we haven't figured it all out";
- bringing together individuals with different backgrounds and styles.

Gore, which was established in 1958, continues to be a high-performing, successful business. It is a good example of an organisation that successfully marries the formal and informal aspects of organisation design: for example,

operating in defined business units as well as having conversations about what the organisation should be like.

Designing for the future is better than designing for now

Neither Gore nor any other company can accurately predict what the future will bring, but trend analysis, simulations, rapid prototyping, scenario planning, gaming, environmental scanning and a range of other techniques give clues to the context and the competitive environment. Organisations such as Shell that take the future seriously are less likely to be blindsided by events than organisations that are rooted in the present.

Shell, a multinational oil and gas company, has had considerable success over the past 40 years working with scenario planning. (Its New Lens Scenarios, for example, explore two possible futures up to 2100.) This has enabled the organisation to meet setbacks effectively with swift action and to perform well in difficult circumstances.

Conversely, many organisations were caught unawares in 2011 by a tsunami in Japan and floods in Thailand. As Linda Conrad commented in *Forbes* in March 2012:[7]

> *Damage and workforce displacement left critical suppliers and subcontractors for auto-makers, technology firms and countless other industries short on parts or completely out of supply.*

What many leaders fail to do is consider future possibilities, being preoccupied by current and day-to-day issues. Frequently, they are caught off guard by predictable events and are equally unprepared for unpredictable events, having no plans in place to deal with either eventuality. As Clayton Christensen, a management guru, points out:[8]

> *It's not that managers in big companies can't see disruptive changes coming. Usually they can. Nor do they lack resources to confront them. Most big companies have talented managers and specialists, strong product portfolios, first-rate technological know-how, and deep pockets. What managers lack is a habit of thinking about their organisation's capabilities.*

Systematic organisation design involves creating a clear vision of the look and feel of a company in the not too distant future (the "to-be state"), assessing where it is now (the "as-is state") and then determining how to close the gap between the two. The gap-closing activity is the creation of the organisation design and then its implementation. Designers know that the to-be state is a moving target, so they aim to design an organisation capable of adapting and flexing, and being agile, nimble and generally responsive to change.

Organisation design happens as much through social interactions as planning

Recent thinking about organisation design is concerned less with its structural aspects – that is, formal, centralised, specialised, or hierarchical – and more with its social aspects. This is because of a new awareness that at heart organisations are social arrangements for achieving controlled performance in pursuit of collective goals.

Social arrangements are becoming more important as technologies enable conversations and information flows among people who could not previously be easily connected. These arrangements are called "social business", a term that used to be associated, and still is to some extent, with addressing a social need: alleviating poverty, improving communities, or increasing the amount donated to charity. Increasingly, though, it is used to describe the way in which organisations pursue their aims by designing around the way that their people, partners, customers and stakeholders interact with and influence each other. Social media, big data and other communication and information technologies are also having a powerful impact in shaping organisations.

There is now a view that organisations are designed solely through conversations. For example:[9]

> *Think of how an organization comes to be. Someone envisages an undertaking she cannot accomplish alone. As she starts talking with others a shared notion of collective action begins to form. At some point there is sufficient convergence of thinking and interests that people begin to act in concert. Only when the idea in the conversation gains this critical degree of coherence does the organization start to function … The conversation precedes and gives rise to everything.*

Managing the tension between the formal aspects of organisation design and the informal, muddling through, conversations presents challenges to designers.

Arguably, focusing on the conversations, interactions and interplays of stakeholders, through new techniques of network mapping and sophisticated data analytics, is the way forward in organisation design. In any event, it is safe to say that concentrating solely on the formal design is not the best way to go. As research published in 2006 on 320 companies on the relationship between structure, functioning and effectiveness found:[10]

> *No direct relationship between structure and effectiveness was found. When functioning is conceptualized as a mediating factor no direct causality between structure and effectiveness is implied … To improve effectiveness reorganizing is probably not the first option to consider.*

Organisation design is always resource intensive

Because organisation design involves all the elements of an organisation (here organisation can mean the whole organisation, a division of an organisation, or a business unit – design work does not have to involve the entire enterprise), it is resource intensive. Keeping the day-to-day operation going while simultaneously trying, for example, to design for a new computer system, or merging divisions, or moving from a process to a market structure is not easy.

Organisation design that aims to align all organisational elements may not be the right solution. This is why doing a careful assessment of the presenting issues, as well as the as-is and to-be states, is valuable and pays off in the long run. It may be that other types of interventions will solve the issues.

An example is Procter & Gamble (P&G), a multinational consumer-goods company. Alan Lafley, P&G's chairman, president and CEO, served as president and CEO from 2000 to 2009. During this time, sales more than doubled and the company's portfolio of billion-dollar brands increased from 10 to 23. As a 2005 interview with Rajat Gupta and Jim Wendler, published in *McKinsey Quarterly*, shows, he bucked a commonly seen approach to company turnaround that often involves:[11]

> *Outrageously high targets for revenues, earnings, and market share; a bold vision based on a striking new business model or groundbreaking*

technology; major strategic moves, such as acquisitions or partnerships, that change the game in an industry; a new CEO, freshly arrived from the outside and committed to shaking things up. Such shocks to the corporate system are widely assumed to be necessary for transforming a company's performance.

Yet Alan G. Lafley's first five years as CEO of P&G show that none of these things is strictly necessary for achieving this sort of change. A large global company that has stumbled and lost some of its confidence can be led to new levels of performance through a more subtle form of leadership exercised by a long-term insider.

Lafley, who had been with P&G for 25 years when he became CEO:

- reduced growth goals;
- focused on core markets;
- communicated his strategy clearly and simply;
- affirmed the value of the culture;
- invested more in management and leadership development.

Lafley's approach was one of substantial change accomplished not by discarding what was in place but by making it work more effectively. His strategy successfully produced the desired results.

Unfortunately, knowing whether there is a need to "start over" the design rather than doing smaller-scale alignment work is a question of staying alert for clues, particularly from the external environment, being familiar with the organisation, and having an appreciation of how the workforce and outside analysts will respond to major redesign.

An example is the challenge that faced Satya Nadella when he became Microsoft's CEO in February 2014. As the *Washington Post* noted at the time:[12]

Nadella's tenure at Microsoft's helm will be largely defined by how he balances the competing visions of Microsoft's future and the strong personalities who will be pushing those visions in Microsoft's boardroom … [Steve] Ballmer, previous CEO, envisioned Microsoft as a "device and services" company and reorganized the company last year to better execute that vision. But now Ballmer is out – though still on the board –

and with a new CEO come fresh questions about the fate of consumer tech at Microsoft.

If the $10.4 billion Microsoft spends on research and development is as fantastic as the former employee says, Microsoft would have a prime opportunity to do what others in this space have also done: build a consumer-facing brand that highlights Microsoft's technologies in virtually everything from ATMs to gas station terminals or that shows how Microsoft services are behind the next wave of other people's technological innovation … Yet history suggests this could be an uphill climb for Nadella. Ballmer struggled to build new consumer-facing businesses at Microsoft for more than a decade, with little to show for it. Nadella will have to decide whether to continue with that strategy or make a painful break and focus on areas where the software giant is a proven winner.

On his first day as CEO, Nadella made clear how important it will be for the company to evolve (that is, change):

While we have seen great success, we are hungry to do more. Our industry does not respect tradition – it only respects innovation. This is a critical time for the industry and for Microsoft. Make no mistake, we are headed for greater places – as technology evolves and we evolve with and ahead of it. Our job is to ensure that Microsoft thrives in a mobile and cloud-first world.

Decisions on organisation design must be taken judiciously after doing a careful assessment of the circumstances and a risk assessment of the consequences. The way the work is implemented is also a critical factor in its success or failure. All kinds of things have to be taken into account: the history and legacy of the firm; the wishes of the board and investors; the expectations of consumers; the innovation demands; the competitor landscape; and so on. But note that leaders such as Nadella who are internal appointments may have an advantage. According to Thorburn McAlister, an executive search firm:

Internally recruited CEOs are associated with superior share price performance over five years of 5.4% per annum versus 3.6% per annum for external recruits, suggesting that markets may value the perceived

strategic continuity and solidity of an internal successor.

Once an organisation design programme is given the go-ahead, three things can help keep it on track without escalating disruption: strong governance; tight project or programme management; and the energy and willing participation of employees. The first two involve finding people with the right skills, abilities and experience to manage and run the organisation design work and do so in a way that plays to the organisation's existing strengths, and the third requires listening, building trust, and using multiple channels for communication and feedback.

Organisation design is a fundamental process, not a repair job

An example is IKEA, as Marvin Weisbord and Sandra Janoff explain:[13]

> *[IKEA] sought to redesign a specific product development and distribution system. The managers already knew that to restore their market advantage they had to flatten the hierarchy and broaden lines of communication.*
>
> *The pipeline looked simple enough on paper. In fact, it described an interactive web of complex interdependencies. All 10,000 products were designed by IKEA employees in Sweden. Materials, from raw goods to finished products, were bought from roughly 1,500 suppliers in 55 countries and warehoused as close as possible to the stores. The 179 stores in 23 countries enjoyed more than 365m customer visits a year, and soon there would be 20 stores more.*
>
> *The company a few years earlier had been reorganised into 11 business areas by product type, for example, upholstered seating, shelving, office, kitchen, and so on. The goal then was to shorten the path from supplier to customer by eliminating regional offices. Its unintended consequence was a proliferation of centralised staff in Sweden, seeking to co-ordinate the far-flung operations.*

The organisation design work was undertaken using what is called the future search model (a conference-style approach involving large groups of people). A year later Catarina Bengtsson, business area manager, seating group, reported the outcome as follows:

I previously had five managers reporting to me. Now I have two: one for supply, quality, and purchasing, and one for product range and commercial questions like advertising, rollouts, and marketing. Now the interfaces are clearer to all of us.

I realised that I needed another kind of leadership to help my organisation get all the way there. When it comes to product development at the suppliers, we have come far. Our latest example is a four-product programme called "Solsta" that was developed at a supplier in Romania, for the German market. The stakeholders developed a new distribution set-up to minimise the cost from supplier to customer as well as make it possible for the German stores to order different combinations of the four products. The first delivery was last week. The development time was less than half of what it was a year ago.

In this example, the organisation design work related not to a department but to a product development and distribution system. The outcome was a fundamental change in the way this business was done. From the extract it is evident that the design affected all the elements of the organisation – systems, structure, people, performance measures, processes and culture – and to make the design work these had to be aligned.

Note that "the company a few years earlier had been reorganised into 11 business areas by product type" and the unintended consequence was "a proliferation of centralised staff in Sweden". This illustrates the point that without thinking through the interdependencies of all the elements of the organisation, the intended outcomes are difficult to realise.

The requirement to maintain a business designed for its context is a constant. This means knowing when and how to make design changes. What works in one time and environment does not work in another. If the business results and the environment are signalling that the current design fundamentally does not work, it is time to change it. An organisation that is stuck in a 1990s design is not going to compete successfully against those designed with the technologies and knowledge available in the 2000s, as the story of Kodak (which was founded in 1892) illustrates. Kodak filed for Chapter 11 bankruptcy protection in January 2012, having failed to adapt its business model to the development of digital photography. However, the company emerged from this as a redesigned organisation, focusing on commercial products such as high-speed digital-printing technology and

printing on flexible packaging for consumer goods.[14]

Summary

Organisation design is a series of activities aimed at aligning all the elements of an enterprise in order to increase performance and deliver the business strategy. Conscious choices and decisions about design options must be made on an individual enterprise basis. Six principles govern effective organisation design:

- Design is driven by the business strategy and the operating context (not by a new IT system, a new leader wanting to make an impact, or some other non-business reason).
- Design means holistic thinking about the organisation.
- Designing for the future is a better bet than designing for now.
- Design is as much emergent through social interactions and conversations as it is planned.
- Design is not to be undertaken lightly: it is resource intensive even when it is going well.
- Design is a fundamental process, not a repair job.

Five rules of thumb guide the approach to organisation design:

- Design when there is a compelling reason.
- Develop options before deciding on design.
- Choose the right time to design.
- Look for clues that things are out of alignment.
- Stay alert to the future.

Strong governance, effective project management and involving employees will minimise the risks of organisation design work.

2   Models, approaches and designs

All models are wrong but some are useful.

George Box

Models

Approaching the organisation as an open system is a good start-point for organisation design. Figure 1.2 shows one systems model, but several other organisation design models are available. These are all based in either systems theory or complexity theory, but because there are lots to choose from it is important to consider which would be most appropriate for a particular situation.

Knowing what a model is and the reasons for using one will help determine which to use. According to the Balanced Scorecard Institute, a model is:

- an image or framework that presents a template for guidance; or
- a representation of a set of components of a process, system, or subject area, generally developed for understanding, analysis, improvement, and/or replacement of the process (US Government Accountability Office); or
- a representation of information, activities, relationships, and constraints (Treasury Enterprise Architecture Framework).

   The value of using a model lies in its ability to:[1]

- help structure approaches to problems, improvements, or events;
- provide a framework for communication of changes and transitions;
- give the design process a common language and vocabulary;
- illuminate and help resolve design issues;
- illustrate interactions, interdependencies and alignments;

- help write a "new story" of the organisation.
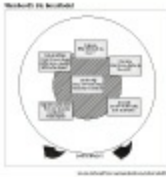
Without a model it is hard for a CEO or other senior executives to describe or think about their organisation in a holistic way. Their tendency is to think about only the structures (that is, the organisation chart), and with this narrow focus they cannot visualise the interdependencies and interactions between all the elements that comprise a fully functioning organisation.

Systems models for organisation design in common use are those originated by consulting firms such as McKinsey, Deloitte and PricewaterhouseCoopers, or individuals including Jay Galbraith, Marvin Weisbord, David Nadler and Michael Tushman, Warner Burke and George Litwin (the Burke-Litwin model). The different models present various perspectives of the organisational system, in the same way that an astronomer standing on each of the planets would present a different perspective of the universe. No one perspective is right; the one that makes sense depends on circumstances, culture, language and context, among other things. So organisation designers at an airline might use the Galbraith model, and organisation designers at a large bank may favour the Burke-Litwin model.

The choice of model also depends on what users want from it: how fancy, how usable, what it implies in terms of implementation, how adaptable it is to changing circumstances, and so on.

Table 2.1 lists six systems models from the simplest to the most complex, noting some strengths and limitations of each. Comparing the models helps the selection process, which is discussed more fully later in this chapter.

TABLE 2.1 **Systems models for use in organisation design**

Originator	Model[a]	Elements of model	Strengths	Limitations
McKinsey 7-S Model (developed by Pascale & Athos, 1981; refined by Peters & Waterman, 1982)		Systems Strategy Structure Style Shared values Staff Skills	Description of important organisational elements Recognition of the interaction between these	No external environment (input)/ throughput/ output element No feedback loops No performance variables
Galbraith Star Model		Strategy Structure People Rewards Process	Description of important organisational elements Recognition of the interaction between these	Does not "call out" some key elements including inputs/ outputs culture
Weisbord's Six Box Model		Leadership (co-ordinates other five elements) Purpose Structure Rewards Helpful mechanisms Relationships	Includes some diagnostic questions in each box Requires the purpose to be stated	Focus on some elements may lead to overlooking of others
Nadler and Tushman's Congruence Model		Informal organisation, formal organisation, work, people (with inputs and outputs)	Easy to follow Allows for discussion of what comprises "informal" and "formal" organisation Boxes must be congruent with each other	Few named elements may lead to wheel-spinning or overlooking of crucial aspects

Burke-Litwin Model		Mission/strategy Structure Task requirements Leadership Management practices Work-unit climate Motivation Organisation culture Individual needs and values (Plus feedback loops)	Includes feedback loops "Calls out" more qualitative aspects (eg, motivation)	Highly detailed Difficult to grasp on a quick glance
Leavitt's Diamond		Strategy People Technology Process External environment	Straightforward Shows connections between the four elements Specifically mentions external environment	Might be over-simple

a   The models are shown full size at the end of the book.

The six models in Table 2.1 have been tried and tested over at least three decades. However, each was developed in an era of relative stability when organisations tended to have a single overarching business design that for the most part flowed down through the various divisions and business units.

Today's world is different: an organisation might comprise a portfolio of companies that operate differently one from another, may be simultaneously competing and collaborating with each other, and have to predict and respond in a chameleon-like way to a changing business environment. Because of the pace and extent of change, this relatively recent and crucial emphasis on having to be able to anticipate what the future operating environment will be like presents a substantial challenge to senior managers and organisational designers. Additionally, the models shown in Table 2.1 were developed with more of an inward-looking perspective (the organisation as a closed system) than an outward-looking one (the organisation as an open system).

How long the models discussed will be in circulation is debatable (and, of

course, models are not set in stone – they can be adapted for best fit). New models are emerging as organisations respond to changes in society, technology, economics, environment, politics, legislation and everything else that bombards them. These models are emerging from arenas such as complexity theory, quantum theory and non-Western cultural traditions and patterns. Table 2.2 presents some of those that have potential for use in organisation design work.

TABLE 2.2 **New models for use in organisation design**

Originator	Model[a]	Elements of model	Strengths	Limitations
Fractal Web Elizabeth McMillan[b] (after McMaster, 1996)		The fractal web principles of the organisation as an organism enable its characteristics to unfold or emerge as it learns and grows as a result of its own activities and its responses to the external environment	Based less in systems theory and more in complexity science. In this model the organisation is adaptive and self-organising, unlike the systems models which are more machine-oriented	Not easy to see how to apply it in practice

Ralph Kilmann's Five Track Model[c]		Five "tracks" for design: culture management skills team building strategy-structure rewards and systems	Kilmann developed this model because "the current view of organisations is rooted in a notion of reality that is false. This comes from the Newtonian paradigm that objects move through the universe and bounce off one another. There's nothing about life, consciousness, or people. The understanding of today's world was largely an outgrowth of the industrial revolution and the original economics"	Similar in scope and approach to a systems model
Ken Wilber's AQAL Model[d]		AQAL stands for all quadrants, all levels. Derived from an integrated philosophy of complementary ideas, theories, beliefs	Based in four quadrants (individual interior, individual exterior, collective interior, collective exterior) grounded in theories of developmental psychology	Not a fully formed organisational architecture model
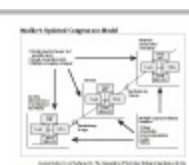
Nadler's Updated Congruence Model		One overarching vision with multiple competing strategies Multiple congruent relations between people, culture, formal organisation, strategy, and critical tasks	Allows for business unit differences	Requires strong leadership, mission and values to keep the units working autonomously but in the same direction
Holonic Enterprise Model[e]		Flexible Members are autonomous but co-ordinated In some cases the enterprise is time bound i.e. it is formed to achieve the specific purpose and disbanded when this has been achieved	Flexible organisational architecture combining the best features of top down (hierarchical) and bottom up/co-operative (heterarchical) enterprises e.g. Northern Italy where family affiliation and historic partnerships have created a lasting network of business arrangements to produce cheese and ham (Parmesan and Parma)	Requires capability to work in each other's interests and not just self-interest to achieve the common goal

a   The models are shown full size at the end of the book.

b   McMillan, E., "Considering Organisation Structure and Design from a Complexity Paradigm Perspective", in Frizzelle, G. and Richards, H. (eds), *Tackling Industrial Complexity: The Ideas That Make a Difference*, Institute for Manufacturing, University of Cambridge, 2002.

c   www.leadcoach.com

d   Wilber, K., *Summary of My Psychological Model – Or, Outline of An Integral Psychology*, 2000 (wilber. shambhala.com).

e   Ulieru, M. and Unland, R., "Enabling Technologies for the Creation and Restructuring Process of Emergent Enterprise Alliances", *International Journal of Information Technology and Decision Making*, Vol. 3, No. 1, 2004.

The likelihood that traditional systems models like those in Table 2.1 are inappropriate for redesigning today's organisations is illustrated by the case of Zappos, an online shoe retailer founded in 1999 (and acquired by Amazon in 2009). In 2014 it began a redesign as a "Holacracy" (shown in Table 2.2. as the Holonic Enterprise Model). This is one of the newer organisational forms linked to complexity sciences. Tony Hsieh, CEO of Zappos, explains the decision:

Research shows that every time the size of a city doubles, innovation or productivity per resident increases by 15%. But when companies get bigger, innovation or productivity per employee generally goes down. So we're trying to figure out how to structure Zappos more like a city, and less like a bureaucratic corporation. In a city, people and businesses are self-organising. We're trying to do the same thing by switching from a normal hierarchical structure to a system called Holacracy, which enables employees to act more like entrepreneurs and self-direct their work instead of reporting to a manager who tells them what to do.

John Bunch, who is leading the redesign, adds:

One of the core tenets of Holacracy: distributed authority. HolacracyOne (the consulting company working with Zappos) refers to Holacracy as a "distributed authority" system, but I think it goes further. It is a system which incorporates: distributed accountability, authority, and leadership. First, it distributes accountability. It allows each person to understand clearly who is expected to do what throughout the organisation.

Whether a redesign of this magnitude will work for Zappos remains to be seen. The company has proved that it can maintain an identity and operating model separate from that of Amazon. Five years after the acquisition, Hsieh described the relationship as a marriage that had worked well. Zappos had been able to maintain its independence and simultaneously benefit from Amazon's massive scale, including its technology. Proving that it can become holacratic is a risk, but Hsieh should be commended for taking it in his search for innovation and adaptation, and in any event he is likely to learn valuable lessons.[3]

One way of developing an adaptive design of the type Zappos is looking for is to look less at models and more at design principles or questions that

could be applicable to specific business strategies. For example, the principles enunciated by Dieter Rams, a product designer, are that good design:[4]

- is innovative;
- makes a product useful;
- is aesthetic;
- makes a product understandable;
- is unobtrusive;
- is honest;
- is long-lasting;
- is thorough down to the last detail;
- is environmentally friendly;
- is as little design as possible.

If we are moving from thinking of organisations as systems with hierarchies and instead to thinking of them as complex networks that could be self-organising, why even consider any of the traditional systems models? Because a large majority of organisations still have traditional architectures. The systems models described still fit most organisations and, used creatively or adapted, can help them move towards architectures that will accommodate the growing emphasis on decentralisation, cellular networks, internal markets, globalisation, virtual working and employee empowerment.

Approaches

Choosing the right model for organisation design is one part of the process. The second part is to choose the right approaches – the methods for talking about, involving, developing and implementing. The approach must match either the current organisational way of doing things or set the tone for doing things in future. So, for example, if things are currently done by leadership mandate in a command-and-control environment, there may be a lack of capability and behaviour to undertake design work using a participative and collaborative approach. Organisations that are designed with the close involvement of stakeholders are more likely to be effective than those that are

designed in a closed room by a few people. The more everyone in an organisation feels in some control of what is going on, and has input into it, the more likely it is that the end result will be one that they are motivated to work in; that is, they will be committed rather than simply compliant.

There are three approaches that work well for increasing participation and involvement.

Demonstrating that employees matter

Advocates of employee involvement are well aware of the value to the organisation of giving people at all levels a voice and choices in their work. Kimpton Hotels is one enterprise that aims to care for its employees. It was founded in 1981 by Bill Kimpton, who strongly believed that if his employees felt special, they would carry that feeling into their interactions with hotel guests. Steve Pinetti, senior vice-president of inspiration and creativity, explains:[5]

> *Our company culture was built [on the employee experience] … It's no different today, 32 years later. Being fun and playful is also a big part of the picture – and goes hand-in-hand with providing unforgettable service. … I'm in the field as much as possible, talking to old and new employees about what they can do to inspire one another and our guests. I still come to work as excited as I was that very first day … What I really love is when we get a young, energetic, excited employee that evolves from a front desk agent or restaurant server to a director of operations or a general manager.*

Pinetti has worked for Kimpton Hotels since shortly after it was founded. His belief in and enthusiasm for the culture seems to be shared right down the line. For example, one catering worker reported after a year with the organisation:

> *It's a great office environment with fun people. There's opportunity to bring your own ideas to the table and it's easy to switch roles if you make the effort.*

Using social media

Social-media channels have powerful and influential voices, commenting on what is going on in an organisation. This might be unwelcome and unsolicited, but it is "out there" nevertheless. There are many instances when things going viral have had a negative or positive impact on an organisation's design. For example, there was a great deal of outrage when it became known how little corporate tax firms like Google, Starbucks and Amazon were paying in the UK. As Mary Watkins says in an article in the *Financial Times*:[6]

> *Such incidents are a wake-up call to business. Taken to their worst conclusions the reputational fallout from missteps can dent a company's sales, profits and stock or influence shareholder and regulatory decisions …*
> *Customers and other stakeholders can now take information, propagate it and use it as a rallying cry to force change, whether by organising mass defections of bank customers or by lobbying.*

But it is equally possible to get a lot of positive coverage and support from social media. For example, as Caroline Melberg says in an article in *Social Media Today*:[7]

> *On February 5th 2014, CVS, one of the nation's leading retail pharmacies, announced they would end sales of all tobacco in their 7,600 stores by October 1st 2014. "As a health-care company, it's time for us to take a stand and to put our customers, colleagues and patients on a path to better health," the company said on their Facebook page.*
> *Word spread quickly. As one might expect, there was plenty of positive and negative feedback to the big announcement. They saw more than 10,000 comments on their Facebook post, and without hesitation, CVS responded to some of their customers' praises and concerns. The company also posted their announcement on their Twitter page.*
> *CVS also responded promptly to many of the responses received on Twitter. Many of those against asked, "why not get rid of junk food or alcohol?" Those users saw quick responses from CVS, explaining the move to one user with the response, "Unlike alcohol, which is okay in moderation, no amount of tobacco use is safe."*

These two organisations changed aspects of their design. Starbucks

agreed to pay UK corporation tax and to meet this obligation undertook various measures, such as relocating unprofitable stores to more cost-effective locations, closing stores where that was not possible, and placing greater reliance on franchised and licensed stores. CVS supported its decision to stop selling tobacco products by introducing a smoking cessation programme, showing a continuing switch in focus from being a convenience store to being a provider of health-care services. As part of this redesign, by dropping tobacco sales CVS was able to align itself more with health-care goals and attract more business from insurance companies and hospitals.

In the same way that social media can used by and for external stakeholders as a disruptor or facilitator of organisational design change, so it can be used with internal stakeholders. When used well, it offers opportunities "to facilitate and smooth the process of organisational change itself, as well as, some argue, improve productivity and make for happier employees", according to *Social Media Today*.

Storytelling

Engaging stories about what is and what might be can have a positive influence in organisation design work. Storytelling enables people to move away from a mechanistic, linear approach to describing how something is done or works towards a more complex and "emergent" approach that richly describes the event, issue, or ways of approaching a solution. Storytelling also fits well with social media. For example, many of the talks at TED and TEDx (global conferences on world-changing ideas) are based in storytelling. And several of them are about what makes a great story.[8]

An article in *McKinsey Quarterly* provides an example:[9]

> *The Royal Navy has a highly efficient informal internal network. Leadership information and stories known as dits are exchanged – between tiers of management, generations, practices (branches), and social groups. With the help of dits, the Royal Navy's collective consciousness assimilates new knowledge and insights while reinforcing established ones. Visitors to naval establishments or ships are often invited for a few dits; crews are encouraged to share theirs.*

Although the three approaches outlined above are useful throughout the

life cycle of organisation design work, three similar activities – future search, open space and world café – are good for initiating a project and/or capturing the views of multiple stakeholders, usually in a face-to-face setting (see Table 2.3).

IKEA used future search (see Chapter 1) to redesign its process and structure for product design, manufacture and distribution. Some 52 stakeholders gathered to examine the current process, develop a new design, create a strategic plan and form task teams to implement it. It took 18 hours to develop a design and sign it off. This was not a sign-off meeting for something presented by senior management: the design was developed with an implementable plan in a short time by people who had not met before.

Designs

In product design, when the function and purpose of the end-product is determined the design process is started. In architecture, Louis Sullivan's phrase "form follows function" is commonly used and it is as useful and necessary a precept for organisation design as it is for architectural or product design. (Sullivan, 1856–1924, is considered the father of modern architecture.) However, the comparison between product design and organisation design cannot be taken too literally. As stated previously, an organisation is in a constant state of flux and its form must be capable of continuously flexing to meet its purpose (function).

The selection of a model and an approach (or approaches) must be a conscious process because they form the infrastructure for the emerging design. In other words, the model and approaches start to express the design as it emerges.

An architecture analogy illustrates the use of models and approaches. If the design challenge is housing for older single people (the function), the model could be an apartment block. The approach is to design something that, within certain parameters, will appeal to that target group (and ideally apartment purchasers will have been involved in the design work from the start). These parameters might include accessibility, utilities availability, market conditions, compliance requirements and cost to build matched to cost of purchase. The result is a form of housing for senior citizens that meets the brief.

TABLE 2.3 **Initiating approaches**

Future search	Future search helps people transform their capability for action quickly. People tell stories about their past, present and desired future. Through dialogue they discover their common ground. Only then do they make concrete action plans.	This is a conference-style approach involving large numbers of internal and external stakeholders jointly working on the design with facilitator support. Briefly, some initial questions are posed and the conference delegates use a combination of structured activities to agree answers/solutions. This approach has the benefits of generating feelings of ownership among the stakeholders and speed in getting to the implementation stage.
Open Space Technology	Open space gatherings are typically held to create a new vision, figure out how to implement a strategy, plan a significant change, solve a complex or intractable problem, invent a new product or prepare for community action.	The rules are simple, although setting up the parameters for a meeting or conference in open space is based on the theories of complexity, self-organisation and open systems. At conferences or meetings, sometimes the best ideas, networking, brainstorming and deal-making happen during the coffee breaks. Open space technology is designed to simulate the natural way people find each other and share ideas in different cultures and countries. It is based on the understanding that there is a great amount of wisdom and experience in any group of people. It starts with a circle of chairs, without a pre-designed agenda. The group sets its own agenda by identifying topics that have meaning for them, that they are

		passionate about and interested in, and for which they are willing to host a discussion group. Small-group discussions happen throughout the day, with participants moving from group to group whenever they feel that they can no longer learn from or contribute to a discussion, or when they feel drawn to another topic.
World Café	World café conversations are a way of creating a living network of conversation around questions that matter. A café conversation is a creative process for leading collaborative dialogue, sharing knowledge and creating possibilities for action in groups of all sizes.	Use the guidelines in combination to foster collaborative dialogue and generate possibilities for action: • Clarify the purpose • Create a hospitable place • Explore questions that matter • Encourage everyone's contribution • Connect diverse perspectives • Listen for insights and share discoveries

Sources: www.futuresearch.net; www.openspaceworld.org; www.openingspace.net

The principle in the housing example is that form follows function, bearing in mind certain criteria. The apartment block has all the constituents of many other buildings: metal, bricks or concrete, glass, ducting, cables, and so on. But the specified criteria ensure that what emerges is an apartment block for people over 60 and not for upwardly mobile young people. Similarly, organisation designs are circumscribed by criteria such as cost, quality, time to deliver, and so on.

As with an apartment block for people over 60, organisation design can be:

- an intentional construct;

- purposefully designed;
- successful if a thoughtful process is used to develop its design.

But note the caveat "can be". It all depends on the people involved, and there are other factors difficult to predict that might affect design success (sudden context changes, for example). With the apartment block, the residents make the design work or not; informal factors such as community activities come into play when determining success. Like the formal elements, aspects of these informal elements are intrinsic to the design.

Intuit, a finance and tax software company, continues to design itself as an innovative organisation, fostering the informal side of innovation by:

- giving employees 10% unstructured time to pursue their ideas;
- giving innovators three months of time as an award for an innovative idea;
- providing collaboration and brainstorming digital platforms for connecting people to help ideas grow;
- holding idea jams – sessions dedicated to moving ideas forward;
- identifying innovation catalysts – "a community of 200 driving design for delight in the DNA";
- designing and conducting quick and testable experiments with customers to get continuous rapid improvements to products and services.

Inuit's consistent application of designed-in innovation processes has contributed to steady, successful growth and annual increases in gross profit margin since 2010. With a strong lead over competitors in offering its products and services via mobile apps, the company is predicted to gain further market advantage.

Four of the six organisation models described in Table 2.1 specify strategy or purpose as one of their elements. To emphasise the point, designing an effective organisation starts with agreeing its function (equated here with purpose, mission or vision), followed by getting clarity on the design criteria. Once the aspects that comprise the function and criteria of the design emerge, the form of it follows. This form-follows-function approach is implicitly endorsed by Michael Goold and Andrew Campbell who, in

prescribing nine tests of organisation design, state:[10]

> *The first and most fundamental test of a design, therefore, is whether it fits your company's market strategy. You should begin by defining your target market segments. The definitions will vary depending on which part of your organisation is being evaluated. If GE, for example, were designing its overall corporate organisation, it would use broad definitions such as "aircraft engines" or "broadcasting". But if it were looking only at the design of its financial services unit, it would use much narrower definitions, probably combining particular service lines with particular geographic markets: "aircraft leasing in Europe", for instance, or "receivables financing in Mexico". There should be no dispute about the relevant market segments; if there is, you need to do some fresh strategy thinking before you proceed with the design effort.*

Sometimes a dilemma for organisation designers lies in the question: is the model chosen before the function is known, or is the function determined and then the design model chosen? This may seem a redundant question because there is an assumption that an organisation's leaders know what its function or purpose is. However, this is often not the case. A leadership team can have as many different ideas about what the organisation exists to do or produce as there are team members. Often the first step in the design process is to get agreement on a single sentence that describes the organisation's function. Team members are then required to demonstrate through their behaviour and actions that they are committed to this purpose, will communicate it clearly and will work to make it live. Google and Intel India Development Centre, for example, both have clear, one-sentence statements of what they are in business to do:

- Google's mission is to organise the world's information and make it universally accessible and useful.
- Intel India Development Centre's mission is "this decade [2010–20], we will create and extend computing technology to connect and enrich the lives of every person on earth".

Most models force the clear declaration of the organisation's function. The choice of model and approaches to develop the design is more a question

of fit. But to help choose the model for the specific organisation, ask diagnostic questions such as:

- Does the model package the organisational elements in a way that stakeholders will recognise (are there enough, are they ones that are important in the organisation)?
- How will stakeholders react to the presented model (is it jargon-free, and simple to understand and communicate)?
- Will the model find favour across the organisation or will it compete with other organisation design models?
- Does the model harbour implicit assumptions that might help or hinder design work? For example, does it include or exclude factors such as local culture (both national and organisational) and human factors (such as personalities), or does it suggest ways that elements may relate to each other?
- How adaptable is the model to the specific context and circumstances in which it will be used? Does it enable any new perspectives or innovative thinking? Is it scalable to small work-unit design and whole organisation design?
- Does the model work with other models in use in the organisation (for example, change management or project management models)?
- Are the costs to adopt the model acceptable (for example, training, communication and obtaining buy-in)?
- Does the model allow for new and unconventional organisation design that will help drive the business strategy?
- Does the model have a sponsor or champion who will help communicate it appropriately?
- Does the model allow for transformational design as well as transactional design? (Transformational means a design developed in response to environmental forces either internal or external to the organisation – for example, creation or closure of a business unit or a merger – that affects the mission, strategy and culture. Transactional means changes related to the business or work-unit structures, systems, processes, and so on that might be needed to carry out the mission and strategy but do not change them.)

Choice of approach takes place as the model is chosen. Approaches are not either/or – they can be used in combination. So, for instance, storytelling can be used in combination with future search.

As with choosing a model, choosing an approach or approaches also involves posing a series of diagnostic questions such as:

- How will stakeholders react to the approach (is it pragmatic, not too fluffy)?
- Is it an approach that will work with other approaches in the organisation?
- Does the approach harbour implicit assumptions that might help or hinder design work? For example, does it include or exclude factors such as local culture (both national and organisational) and human factors (such as personalities), or does it suggest ways that elements may relate to each other?
- How adaptable is the approach for the specific context and circumstances in which it will be used? Does it enable any new perspectives or innovative thinking? Is it scalable to small work-unit design and whole organisation design?
- Are the costs to adopt the approach acceptable (for example, training, communication and obtaining buy-in)?
- Does the approach facilitate new and unconventional organisation design that will help drive the business strategy?
- Does the approach have a sponsor or champion who will help communicate it appropriately?
- Does the approach allow for transformational design as well as transactional design?
- Do we need or want a jump-start approach?

Again, there is no single choice of approach. The general principle is to ensure that there is no conflict between the prevailing style of the organisation and the proposed approach.

CASE STUDY 1

Choosing a model and an approach for an organisation design

This case study illustrates how one organisation initiated a design and implementation project around a specific business issue. The choice of model and approach was part of early thinking about how the design project should be set up. This formed the basis for resolving the issue in a participative and speedy way.

The organisation

A multinational pharmaceutical company with 91,000 employees in 140 countries. It is a world leader in offering medicines to protect health, cure disease and improve well-being. Its stated goal is to discover, develop and successfully market innovative products to treat patients, ease suffering and enhance the quality of life. It has leadership positions in both patented and generic pharmaceuticals. It is strengthening its medicine-based portfolio, which focuses on strategic growth platforms in innovation-driven pharmaceuticals, high-quality and low-cost generics, and leading self-medication over-the-counter brands. In 2005, the group's businesses achieved net sales of $32.2 billion and net income of $6.1 billion. Approximately $4.8 billion was invested in R&D.

The issue

The pricing of drugs is currently done within each geographic location. Thus there are many pricing teams each responding to local conditions and each with their own methods and criteria for pricing. There is a headquarters view that this model leads to overlap and duplication of work, inconsistent pricing for customers and lack of transparency on anticipated sales volume.

The requirement

An organisation design model and approach for designing and developing a pricing organisation and strategy that will result in cost savings, efficiency gains, appropriate standardisation of pricing policies and processes (allowing for local conditions if necessary), and local reinforcement of the desired business image of the global company.

Discussion

A group of managers met to look at new ways of thinking about pricing. They agreed that the design envisaged was transactional rather than transformational: that is, the overall business vision, mission and strategy would be unaffected. However, they felt it likely that thinking differently about pricing, how to price and pricing teams would result in a significant new design of many components of the

organisation.

Before looking closely at the models, the managers agreed that:

- the function of pricing was to determine the best price to cover costs and earn overall profit for the whole enterprise;
- pricing was determined by a relatively complex input, throughput, output process, shaped by the environment;
- they needed a common, agreed and adhered to pricing strategy that dovetailed with the overall business strategy at the enterprise level but allowed for differentiation at the local level;
- the new "pricing organisation" should eliminate overlap, duplication and customer confusion.

This agreement ruled out a couple of the models immediately. The 7-S model does not specifically mention external environment and operating context and nor does Galbraith's Star Model, though both could be adapted.

The managers looked more closely at the remaining four models. The Burke-Litwin model with its many boxes, arrows and feedback loops looked too complex to be grasped easily and quickly by busy line staff operating in a range of geographies. The Weisbord 6-box model did not parcel the organisational elements in a way that seemed right to the group; for example, it was not clear what "helpful mechanisms" might look like across the current pricing process. Leavitt's Diamond was considered more fully but it was weaker in distinguishing between the people as a workforce – in terms of work activity, roles and skills – and the informal, cultural aspects of an organisation – the language, norms and relationships.

This left Nadler's Congruence Model as a possibility. This too had some constraints:

- It appeared to be a model for maintaining stability and consistency rather than encouraging adaptability to the environment.
- It appeared to militate against consideration of the different operating environments. In designing the characteristics of the pricing function, the managers were determined that this should include what Nadler calls the "twin principles of integration and differentiation" – integration meaning that each geography focused on the same business and pricing strategies; and differentiation meaning the ability for each geography to implement the strategies in a way that made sense locally.
- The managers were not convinced that it would result in a swift, innovative design and implementation. They were looking for a very different pricing function that would be operational within weeks rather than months, so they were not interested in going through the type of long-winded organisation

design process they had experienced in the past. They were looking for speed in the design process and innovation in the resulting design.

However, they then realised that the Congruence Model had been updated to resolve these problems. The basic principles remain the same, but in the newer version (see Table 2.2) the model is applied at each business-unit level but within a single enterprise vision.

The managers felt that in their case they could start to envisage an organisation design that built alignment, congruence and linkages (that is, integration) across all the geographic locations in the areas of formal organisation and work activities, as well as differentiation for each geographic location in the areas of people and culture. The outcome would be people using the same systems and processes to carry out the same work activities, but their ways of working could be different. The managers understood that the people and culture aspects of each geographic location would have to mesh with the formal aspects and the work activities, but they believed this was achievable.

Recognising that they were at an early stage in the process, the managers decided not to jump into an immediate solution to the business issue. Instead, they worked through the diagnostic questions to see if their initial selection of the Updated Congruence Model made sense in their situation. By and large they felt that it would work, although they needed to check that it was in line with other models, and they wanted to see some of the costs associated with introducing it. (The managers had been bitten in the past by external consultants using a range of models, each with its own vocabulary and style. The result was confusion, lack of consistency and money wasted as implementations collided on competing paths.)

They then started to consider the range of approaches they could use to develop and implement the design. As they went through the diagnostic questions, the discussion got more heated. Many group members felt that the prevailing style of the organisation was one of command and control, which was in direct conflict with the stated intention of being collaborative and "valuing the ideas of our people". With this disconnect between what was said and what was done, participants felt that trying to jump-start the process through something like future search would be difficult to sell to some stakeholders because it could appear too soft in style, and to others because they would not believe that anything they contributed would actually be used.

A challenger to this argument suggested that successfully using future search or other participative approaches could start to move the culture towards being a genuinely more involving one. In his view, this would improve organisation effectiveness because his experience was that participative business cultures were more highly performing than command-and-control ones.

The managers listened to him because they knew that although he was a relative newcomer to the business, he had come from an organisation where social

media were used and collaboration was sought, valued and delivered excellent business results. He suggested that they examine their assumptions about involving people by looking for examples in the organisation where people had succeeded in collaborative ventures against the odds, and start consistently using the various social-media tools to develop employee confidence that leaders wanted to involve, listen and respond.

However, he also made the point that if they were to choose a collaborative design process, they would probably have to change their own individual and collective management styles in order to "walk the talk" credibly. Bravely, he said that he thought this would be a bit of a stretch for some of them and a potential risk to the project, but he felt that if people could see their leaders visibly succeeding in becoming more collaborative this would be a great demonstration of ability to change and a good mitigation of that particular risk.

The discussion continued with people talking about the management challenges of being simultaneously global and local, particularly in terms of organisation design thinking. Some people started to suggest solutions to the pricing issue but were pulled back by someone stating that they had already agreed not to jump to a solution and to involve others in their thinking. The meeting ended with an agreement to:

- find out the costs of running a future search jump-start, including preparation time;
- draw up a list of internal and external stakeholders to invite to the meeting, assuming they decided to go ahead;
- alert the communications group about the forthcoming piece of work;
- individually do some work on assessing their comfort levels with participative and collaborative approaches;
- make a decision on the design criteria of the project at their next meeting – they did not want to bite off more than they could chew, and they did want to agree clear parameters to the project.

Reflections on the case study

The selection of the model and discussion of the organisation design approach is not time wasted. It is not a sterile academic exercise rooted in ivory-tower theory, but rather something that provides a number of real-world benefits to the start-up of a successful design:

- It is a firm framework for everyone working through the design process, acting as a guide and a reference point right the way through.

- If it is communicated effectively with requests for feedback, stakeholders will know that there is a base from which a plan and a process will be developed. Too often restructuring or reorganisation is felt by those on the receiving end to be arbitrary, haphazard and not thought through.

- The discussion will reveal to senior managers their perspectives, attitudes and responses to the design issues. They will learn where they need to develop their capability to work as a team to solve the problem.

- Using a model enables a number of possible options to be generated from the same platform. This makes comparing their relative advantages and disadvantages easier than simply presenting a range of possibilities.

- Discussion of different models or the aspects of a particular model encourages questions and debate about the intended design. For example, in the pricing case, whether the critical pricing tasks were likely candidates for streamlining and consistency, and whether the way things were formally organised would need to be the same or similar across the locations.

- Using a model generates reflection on possible consequences of various types of design decisions. For example, what would be the consequences if they went for organisational consistency to enable mobility across locations in terms of roles, position in the hierarchy, and so on? Would there be any unintended consequences of going for such consistency?

Similarly, making conscious choices about the approach to the design helps move the organisation in a certain direction. In the pricing case, one of the design outcomes had to be to minimise customer confusion. This meant that people had to recognise customer confusion, care enough to do something about it, and have the capability and the means to do something about it. The managers realised that people knew when customers were confused, but the prevailing attitude and behaviours were of the "so what, it's a management problem, we can't do anything about that" variety. Customer satisfaction surveys consistently pointed out these unhelpful attitudes.

Thus it was decided to use a design approach which gave people a say in

the outcomes, developed attitudes and behaviours that improved customer service, and demonstrated a new commitment to making things transparent to all stakeholders.

Tools for the case study

This debate could have gone wrong when it started to get heated. However, because of bad experiences in the past, the managers decided to get a facilitator to run their meetings and also to work on developing their individual skills in listening and questioning. What also helped them were two tools: the Learner/Judger Mindset Model and social media.

The Learner/Judger Model

The model was developed by Marilee G. Adams, whose book, *Change Your Questions, Change Your Life: 10 Powerful Tools for Life and Work*, teaches readers how to ask questions from a learning (curious) mindset rather than a judging mindset (see Table 2.4). Being an inquiring leader means asking questions like: What's the best thing to do? What are the choices? What's possible? What's the big picture? It also means listening carefully and not making assumptions, leaping to conclusions or closing down possibilities. Questions posed are constructive and open-minded rather than loaded with criticism or blame. This inquiring approach leads to innovation and creativity in thinking.

Social media

Social-media tools and communication channels are becoming mainstream, yet many organisations lack a strategy to use them effectively in their day-to-day operations. Often this lack of investment (and interest) in social media is because senior managers are unfamiliar with their potential and value and/or do not demonstrate an ability to use them in day-to-day interactions with customers and employees.

TABLE 2.4 **Ask questions as a learner, not a judger**

Judger	Learner
Human nature	Human spirit

Advocating	Inquiring
Automatic	Thoughtful
Judgmental, biased	Accepting, unbiased
Know-it-already	Inquisitive researcher
Inflexible, rigid	Flexible, adaptive
Point of view: only own	Point of view: includes others
Win-lose relating	Win-win relating
Debate	Dialogue
Feedback seen as hurtful	Feedback seen as helpful
Operates in "attack or defend" mode	Operates in resolution and innovation-seeking mode

Source: Adams, M.G., *Change Your Questions, Change Your Life: 10 Powerful Tools for Life and Work*, 2nd edition, Berrett-Koehler, 2009

Cisco, a multinational designer and manufacturer of networking equipment, lists three communication activities which will confirm that leaders are "social".

Microblogging

This is the smallest element of social collaboration, popularised by Twitter, being a short update akin to tweets of what a person is doing or thinking, or perhaps a general question to the larger group. A major benefit is that it takes a matter of seconds to write a microblog, so an executive can update it multiple times a day. Executives who frequently microblog help the larger group gain better insight into their activities and what they are doing and thinking, and thus more closely identify with organisational goals.

Executive blogging

This can be used to share informally what is on executives' minds. They should aim to blog on a regular basis (not necessarily a hard schedule but persistent) and avoid dropping out after awhile. A blog encourages people to comment and interact with the executive, creating a direct means of communication that normally employees may not have. This is a core benefit of social collaboration and helps to flatten the organisation.

Sponsoring online communities

An executive-sponsored online community can be used for a number of purposes, such as strategic projects, special interest topics, innovation hubs, and so on. Select communities can act as a feedback loop directly to executive sponsors, giving employees the sense of having a direct voice to senior management.

Summary

Organisation design works on similar principles to product or architectural design in that "form follows function". Traditional systems models of organisation design are giving way to models deriving from fields including complexity sciences. Nevertheless, traditional models can be adapted to take organisations into new forms.

Organisation designs work best when a full range of stakeholders is engaged in the design thinking and process. Several approaches involving stakeholders can be used with the various models. No one model or approach is recommended over another as the choice depends on the situation and the questions or issues that the organisation is aiming to address in the design. However, to make the right choice of model and approach, it is important to ask the right questions.

3 Organisational structures

*Structures are fine as long as they are controlled by the people who
actually work within the structures, but they're dicey even there.*

George Woodcock, Canadian poet and literary critic

HOW MUCH OF A ROLE structural decisions play in organisation design projects
depends on the outcomes sought. Structural decisions usually loom larger in
leaders' minds than other decisions related to organisation design. But it is a
mistake (often a costly one) to focus a design on changes in the structure.
Structure is simply one of the elements to consider because, as pointed out in
previous chapters, organisations should be viewed as complex and adaptive
organisms rather than mechanistic and linear systems.

However, all design work requires at least an assessment of the current
structure and its ability to support delivery of future results in a way that
supports the other elements of the organisation. In making the assessment, it
is useful to determine whether the current structure:

- directs sufficient management attention to the sources of competitive
  advantage in each market;
- helps the corporate centre (if there is one) add value to the
  organisation;
- reflects the strengths, motivations and weaknesses of the people;
- protects units that need distinct cultures;
- provides co-ordination for the unit-to-unit links that are likely to be
  problematic;
- has appropriate management levels and units;
- supports effective controls;
- facilitates the development of new strategies;
- provides the flexibility required to adapt to change;

- reflects complexity of markets and industry relationships while being sufficiently straightforward for stakeholders to work with.

Organisational structures in mature organisations (ones that have been around for two decades or so) have their roots mainly in classical organisation theory characterised by the principles of scientific management. Based on these principles, organisations were structured to reflect economies of scale and standardisation of work. Financial capital was seen as a scarce resource and corporate headquarters exercised operational control over divisions, business units and departments. Many of the large organisations that are struggling today have had a hard time updating and renewing the legacy structure that has become entrenched.

An example is IBM, which after spending $2 billion in 2013 to acquire SoftLayer Technologies set about investing $1.2 billion to expand its cloud services, bolstering a business it is counting on for growth:[1]

> *IBM is trying to keep up as customers shift from buying their own computer servers to relying on the cloud, where data and applications are delivered online instead of being stored locally. A slump in demand for hardware has contributed to six straight reported quarters of declining revenue, forcing the Armonk, New York-based company to adapt.*
>
> *"That's the transformation that IBM is in right now," Crosby [CEO of SoftLayer] said. "That's why we are spending the money."*

There are several reasons why traditional structures, largely stemming from the late 1800s and explained in Frederick W. Taylor's 1911 book, *The Principles of Scientific Management,* are no longer valid. They are based on assumptions that no longer hold, typified by a view that:

- management control and co-ordination are essential for maintaining productivity and performance;
- there is a "best" structure for any organisation;
- specialisation and division of labour increase the quality and quantity of production;
- changing the structure is the best way of dealing with perceived problems.

This so-called mechanistic perspective gave rise to the functional organisation structure characterised by a clear hierarchy in the workforce, a status-driven view linked to advancement (the perk of a corner office, for example) and an emphasis on vertical tasks with a focus on content.

Subsequent organisational theorists suggested that Taylor's view on the right structure for maximum productivity was too simple. They "proved" that it is numbers of complex, interacting variables that make the difference in motivating people and increasing productivity. The most widely known of these theorists is Elton Mayo, who between 1924 and 1932 conducted experiments at Western Electric's Hawthorne plant. His findings, popularly known as the Hawthorne Effect, propelled a wave of new thinking about organisational forms.

Developing this thinking, during the 1960s and 1970s contingency theory came into play. Briefly, this suggests that organisations vary in design and form depending on their operating environment and the types of products and services they are offering. Theorists agreed that there is no one right structure for an organisation. What is right depends on a number of variables and the way these interact to shape and be shaped by their operating environment.

Alongside contingency theory, organisation systems theorists suggest that change in one part of the organisational system will produce different effects in the system as a whole, and because the operating environment changes frequently, if not continuously, interactions within a system are inherently complex. This results in structures that emphasise horizontal tasks, collaboration across units, a focus on process and a commitment model of worker productivity.

Sohrab Vossoughi, CEO of Ziba, a design and innovation consultancy, talks about this form of horizontal structure in terms of managers as "integrators", working not as organisers and delegators of tasks – the role typical in a traditional vertically structured organisation – but as developers of customer and brand experience. He thinks that this is an inherently "messy and ambiguous undertaking", but is firm in his view that "if you want your business to succeed, shift your focus to horizontal integration".[2]

TABLE 3.1 **Organisational theory: models and structures**

Organisational theory	Model	Structure
Scientific	–	Functional

management		
Systems theory (closed and open)	McKinsey's 7-S model	Divisional
		Matrix/project
	Galbraith's Star Model	
	Nadler's Congruence Model	
	Weisbord's Six Box Model	
	Burke-Litwin's Model	
Complexity theory	Nadler's Updated Congruence Model	Network

Typical structures, discussed in subsequent sections of this chapter, reflecting early systems thinking are functional, divisional (product, process, geographic/market, or customer) and matrix. As a result of digital innovations, however, different, more flexible, potentially self-organising structures are arising, often based on collaboration and/or networks of shifting partners/alliances where hierarchical authorities are less obvious and control is more diffused. In such organisational forms, leadership may be tied not to a hierarchy but to where it makes sense to have a leader.

Paradoxically, as this happens there is evidence of a clash between emerging and established structures. An example is Uber, which runs an app-based taxi scheme where passengers who have signed up can request, ride and pay for a ride via their mobile phone. All cars are driver-owned, and unlike conventional taxi drivers Uber drivers are not bound by local-government regulations. In many cities where Uber operates there have been clashes with the regulated taxi industry and with local lawmakers, but Uber's CEO, Travis Kalanick, is confident that laws and policies will have to change because they will be seen to be unworkable and not in the public's interest.

As trends in society, politics and technology change, people's attitudes to new organisational models and structures change. This influences organisational theory, which in turn informs organisational models and

structures. Table 3.1 simplifies the connections.

Functional structure

A functional structure with functions/divisions such as sales, marketing, production, operations and finance all reporting to head office is highly traditional, deriving from the Taylorist view of organisations, and is often found in strong command-and-control organisations. The main strategy of functionally focused organisations is to maximise margins through leveraging economies of scale and functional expertise. Functional structures are effective when:

- there are stable and undifferentiated markets with well-understood customer requirements;
- there is a successful, control-focused enterprise culture;
- there is a small, single product line;
- there is scale or expertise within each function;
- there are long product development and life cycles;
- the organisation works to common standards.

Apple, a designer and manufacturer of consumer electronics, under Steve Jobs had a functional structure. According to an article in *CNNMoney*:[3]

[It has] none of the dotted-line or matrixed responsibilities popular elsewhere in the corporate world … Specialisation is the norm at Apple, and as a result, Apple employees aren't exposed to functions outside their area of expertise … the executive who runs Apple's online store, for example, has no authority over the photographs on the site. Photographic images are handled company-wide by Apple's graphic arts department. Apple's powerful retail chief … doesn't control the inventory in his stores. Tim Cook [now CEO], whose background is in supply chain management, handles inventory across the company.

At first sight it seems that Apple's characteristics do not conform to those of a functional organisation. However, all the attributes for a successful functional structure were present: the clear direction of Jobs (described as a corporate dictator); the emphasis on developing product before considering

who will buy it; the ability to focus on a handful of products at a time; the policy of depth not breadth of functional expertise; and the rigid adherence to common standards led by a unified top team.

Divisional/product structure

A divisional/product structure is the most appropriate in a business where there are low synergies between the buyers and the distribution channels of the different divisions. Typically, in this structure each division runs as an independent business unit. Divisional/product structures are effective when:

- stakeholders perceive low synergies between products;
- there are different purchasing process/distribution channels;
- there are different operating requirements for success;
- there is a different competitive environment;
- there are short product development and life cycles;
- there is a minimum efficiency of scale for functions or outsourcing.

Danone, a food products company, for example, is structured on divisional/product lines: fresh dairy products; waters; baby nutrition; and medical nutrition.

Divisional/geographic or market structure

As organisations expand domestically and internationally, the tendency is to organise by geographic markets, enabling recognition of local cultures and operating conditions. These structures aim to operate under the slogan "think global, act local". Divisional/geographic or market structures are effective when:

- the business environment varies by geography – different customer needs, different competitive environment, different external constraints;
- the products produced have a low value-to-transport cost ratio (where the product value is considered in relation to the cost of transporting it). For example, potatoes are low-value items and the cost of transporting them is high, so selling them close to where they are

grown is a cost-effective strategy;

- the organisation is close to customers for delivery or support;
- the organisation wishes to be perceived as local.

Coca-Cola, a global beverages company, is an example of a predominantly geographic organisation structure. At the end of December 2013 its operating groups (with the unit case volume for each) were: Eurasia and Africa (15%); Europe (14%); Latin America (29%); North America (21%); Asia Pacific (21%); bottling investments; corporate.

Divisional/process structure

In this structure the focus is on processes where core services such as customer and distribution services are operated across the enterprise. Internal support services are frequently organised in this way but customer-facing services are equally well served by this structure, which is a good alternative to the functional structure. Process-focused structures work well when:

- there are well-defined processes serving different customers (internal/external);
- there is potential for new processes and/or radical change to processes;
- there is a requirement to reduce working capital;
- there is a need to reduce process cycle times;
- there is little interdependency between core processes;
- there are different cultures/workforces between core processes.

Contact or call centres which handle account inquiries, customer complaints or support issues are managed around process flows. Increasingly they use cloud-based technologies that enable seamless integration of telephone, e-mail and both proactive and reactive social-media customer interaction from one platform. Marty Beard, formerly CEO of LiveOps, a cloud-based call centre, explains:[4]

An agent comes in for her shift. She logs into the application. The screen pops up. She has a queue in front of her that shows voice, email, chat,

SMS, Twitter, and Facebook. There's a number associated with the queue that will show how many interactions are in the queue to be resolved. This is dynamic. As another call comes in, the queue goes up, as she resolves it, it goes down. It shows in real time the active queue by channel. In the middle of the screen is the case the agent is actually working on. When she works a case, it will show your history of interactions with that call center. So, the agent will know when was the last time a person communicated with the call center, how it was resolved, and which channel the call came in on. So, we know your channel preferences. We've all had the frustration of contacting a call center and then getting shifted over to somebody else who makes us repeat everything, or we get put on hold. This allows for a much more dynamic interaction across any channel. That's the key.

Divisional/customer structure

Structures around customer segments are successful where there are obvious customer segments defined by need, economics, distribution and other key attributes. Divisional/customer structures are effective:

- where well-defined customer segments have been identified;
- when selling products/services unique to segment;
- when using buyer strength;
- when leveraging customer knowledge advantage;
- when requiring rapid customer service and product cycles;
- when perceiving minimum efficiencies of scale in functions or outsourcing;
- when promoting a strong marketing/customer-focused culture.

Banks are frequently organised around customer segments (personal, business, high wealth, and so on) marketing specific products to each segment. Metro Bank, which launched in the UK after success in the US, operates a customer/divisional model but aims to challenge the established banks by competing on service, convenience and relationships rather than products. In June 2014 the bank had yet to turn a profit but was showing annual growth of 125%, demonstrating some success in its organisation

design.

Matrix structure

Matrix structures typically operate in two dimensions (for example, function and product) and are usually one of three types: functional matrix, balanced matrix or project matrix.

The aim of the matrix structure is to provide customers with innovative options through effective teams of highly skilled individuals. Matrix structures are most effective in conditions where:

- core work is project-based or the work requires small groups of people;
- projects require highly specialised skills and knowledge;
- project skill requirements vary greatly;
- labour cost is a prime economic driver.

As they mature, telecommunications companies increasingly turn to a matrix structure. Typically at group level they have two axes: a customer focus based on geographies and/or segments, and a functional dimension to capture economies of scale and synergies. A white paper on the organisation of telecoms companies noted that the different forms the matrix can take involve trade-offs between functional consolidations and market requirements.[5]

Vodafone, a telecoms company, initially grew rapidly by acquisition, but then saw opportunities for global scale advantage in three areas: innovation, procurement and the development of best practices in marketing. It therefore created a system with country-based businesses and global functions in the three areas where the additional complexity added value.[6]

Network structure

Network structures are valuable for fast-moving organisations that are highly innovative and operating in an environment that requires speed, flexibility and high levels of customer focus. In network enterprises, work is organised around team and unit delivery, often because units have distinctively different ways of working. However, as the units work in combination, the delivery to the customer is seamless. The Star Alliance is a network of 28 airlines "both

large and small, diverse in culture, ambitious in their own strategies, differing – indeed, sometimes even divided – in their opinions", says Mark Schwab, its CEO.[7] Developing London Heathrow's Terminal 2 building for use by the 23 alliance airlines that fly there shows the challenges of a networked organisation in action. The airlines had, for example, to collectively decide and agree how, in an efficient and cost-effective way, to:

- reduce the number of ground handling companies;
- implement state-of-the-art common check-in facilities;
- address the growing demand of passengers to use the self-service options available on their smartphones and other digital devices.

To do this, an organisation needs a structure and culture that allow it to share observations and experiences, learn from previous mistakes and continuously seek improvements.

Cluster structure

The cluster model provides another example of an organisational style ideal for conditions requiring flexibility, innovation and change. It is a subcontracting model where, as Gareth Morgan says in his book, *Imaginization: New Mindsets for Seeing, Organizing, and Managing,* "the team at the centre steers the whole enterprise". The subcontractors are the clusters around the central point. Specific and time-related contracts for work come from the central point.

The aim of the cluster model is to provide customers with innovative solutions through effective teams of highly skilled individuals. Cluster structures are most effective in conditions where:

- there is rapid pace of change;
- a market niche must be quickly exploited;
- subcontractors are required to do specific pieces of work;
- there is no requirement for direct reporting relationships;
- decision-making and accountability are delegated to those doing the work;
- clusters are linked by contacts among members.

For example, Nike, a global footwear and apparel manufacturer, has a cluster approach. It outsources the manufacture of its 500,000 or so products, using more than 900 contract factories, which between them employ over 1m workers.

As noted in its 2013 *Corporate Responsibility Report*:[8]

Like many global companies that outsource production, our supply chain is complex, fragmented and often influenced by factors beyond our power and purview. That's what makes our work so challenging. We do not own these factories, so we cannot simply mandate change. Instead, we must build and influence positive change through our contracts.

"Life-form" structure

The structures described so far all derive from thinking about organisations as an assemblage of discrete parts that can be taken apart, replaced, reassembled and re-formed as if they were a collection of Lego bricks. A different view of organisations comes from Arie de Geus, a business theorist, who talks of large institutions, particularly global corporations, as a new living species – at best, thoughtful evolutionary "beings" collectively participating in the evolution of our universe. From this perspective it is impossible to disassemble the elements, just as it is impossible to disassemble a human being and remodel one. As Peter Senge says:[9]

Rather than attributing the changes sweeping the world to a handful of all-powerful individuals or faceless "systems", we can view them as the consequences of a life form, that like any life form, has the potential to grow, learn, and evolve.

Theoretically, any of the structures described above can be seen as having a life form with the capacity to:

- continuously recreate themselves (as the cells in a human body do);
- act from perceptions of where they are in relation to others;
- "conserve features essential to their existence and seek to evolve";
- "learn to tap into a larger field to guide them toward what is healthy for the whole";

- follow a natural life cycle from birth to death.

Examples of this type of organisation are hard to find, but there are some "collectivities" that are perhaps moving in that direction. The Open Source Initiative is one, although it could be argued that this is closer to a virtual structure. Another example of a "life-form" organisation is the spontaneous movements that are facilitated by social media. The Occupy movement and the Arab Spring are two prominent examples.

Open Source Initiative: a life-form structure

Open Source Initiative (OSI) is a non-profit corporation dedicated to managing and promoting the Open Source Definition for the good of the community, specifically through the OSI Certified Open Source Software certification mark and program. You can read about successful software products that have these properties, and about our certification mark and program, which allow you to be confident that software really is "Open Source". We also make copies of approved open source licenses here.

The basic idea behind open source is very simple: when programmers can read, redistribute, and modify the source code for a piece of software, the software evolves. People improve it, people adapt it, people fix bugs. And this can happen at a speed that, if one is used to the slow pace of conventional software development, seems astonishing.

We in the open source community have learned that this rapid evolutionary process produces better software than the traditional closed model, in which only a very few programmers can see the source and everybody else must blindly use an opaque block of bits.

Open Source Initiative exists to make this case to the commercial world.

Source: www.opensource.org

Structure decisions

People in organisations are familiar with restructuring. Who has not enjoyed the Dilbert cartoons that exemplify the cynicism and weariness of the workforce as they get wind of the next round of downsizing, outsourcing, or similar? But for Kaz Hirai, CEO of Sony, a multinational conglomerate, restructuring is part of the day-to-day responsibilities of a business that must

respond to a changing context and play to and develop its strengths. He says:[10]

If we're talking about restructuring it's something that we've undertaken already in the past. Some of our businesses are growing so those areas will have more and more employees. Other businesses where it's shrinking, we may have to restructure. That's part of business. It's not something we decide on one day, it's an ongoing process.

As leaders search for ways of increasing the speed, flexibility, integration and innovation of their organisation – without losing control of it – they turn first to its structure, perhaps because this appears to be an easy thing to do (compared with, say, looking at the culture, or the way people learn and apply things in the organisation). Basically, leaders want to know what structure will work best for the organisation and what the options are. The questions they want answers to are typically as follows:

- Speed
    - How often and how much restructuring is necessary to keep ahead of competitors?
    - What structures make for fast decisions and delivery of product or service?
    - What structures will enable keeping up to speed or ahead of the curve with changes in customer and market requirements?
    - What structures minimise bottlenecks without incurring risk?
- Integration (size and shape)
    - What structure will maximise the flow of knowledge and information through the organisation?
    - What effect do particular structures have on the relationships among business units, divisions, headquarters, customers, suppliers?
    - Does the way a department, business unit or organisation is structured get in the way of efficient and effective workflow?
    - What is the best balance between centralisation and decentralisation?

- Does the structure allow everyone's voice to be heard (high participation)?
- Flexibility (role clarity)
  - How will jobs and pay levels be described and classified to maximise workforce flexibility?
  - What levels of autonomy, accountability and participation go with each of the potential structures?
  - What are the job designs that go with each type of structure?
  - How well do the relationships between individual departments and between departments and headquarters work?
- Innovation (specialisation/organisation identity)
  - What structure will best support the desired culture?
  - What structure will best support organisational values?
  - Does the organisational structure attract the best and the brightest staff (and help retain them)?
  - Will structuring differently help develop the organisation's market position and competitiveness?
  - What structure would maximise the flow of knowledge and information through the organisation?
- Control
  - How will the balance between local and central control be attained?
  - How many layers of management make for effective and efficient control?
  - What is the optimum span (ie, number of people any one person can supervise) of control in a given set of circumstances?
  - How can structures be used to drive the desired/required behaviours?
  - What should be the chain of command/decision-making?
  - Who will report to whom and why?

Because the structure of an organisation is only one design element, there

are no straightforward answers to these questions as each has to be answered in relation to the other organisational elements. However, comparing the structures starts to give some useful information on the relative capabilities of each, as Table 3.2 shows.

Combining this information with the advantages and limitations of each structure (see Table 3.3) gives a reasonable start-point on which to base discussions about current structures and structural alternatives. One thing to bear in mind is that even within one organisation there may be no need for a single structural form across the whole organisation. For example, an internal audit department may require a different structure from a research and development department, which may in turn need a different structure from a programme management department.

Layers and spans

Layers in an organisation refer to the number of levels of staff there are from the most junior to the most senior. Traditionally, government organisations have many layers: for example, US government agencies typically have 15 layers (with ten pay grades within each). The trend is to reduce the numbers of layers in an organisation by merging or removing them in order to place accountability at the lowest possible layer.

A span of management is the number of employees that a single manager is responsible for, usually in terms of allocating work and monitoring performance. There is no right number of people that one person can manage (though a commonly held view is that five is the optimum) as various factors affect a manageable span. The relationship between spans and layers is not straightforward either, although wide spans of management are typical of organisations that have few layers.

TABLE 3.2 **Comparing structures**

	Functional	Divisional	Matrix	Network	Cluster
Division of labour	By inputs	By outputs	By inputs and outputs	By knowledge	By skills and knowledge
Co-ordination mechanisms	Hierarchical supervision, plans and procedures	Division general manager and corporate staff	Dual reporting relationships	Cross-functional teams	Centralised hub co-ordinating across partner organisations
Decision rights	Highly centralised	Separation of strategy and execution	Shared	Highly decentralised	Within each contributing organisation
Boundaries	Core/periphery	Internal/external markets	Multiple interfaces	Porous and changing	Multiple changing interfaces
Importance of informal structure	Low	Modest	Considerable	High	High (hub to partner organisations)
Politics	Inter-functional	Corporate division and interdivisional	Along matrix dimensions	Shifting coalitions	Depends on contact between members
Basis of authority	Positional and functional expertise	General management responsibility and resources	Negotiating skills and resources	Knowledge and resources	Expertise, resources, position in marketplace
Resource efficiency	Excellent	Poor	Moderate	Good	Excellent
Time efficiency	Poor	Good	Moderate	Excellent	Excellent
Responsiveness	Poor	Moderate	Good	Excellent	Excellent
Adaptability	Poor	Good	Moderate	Good	Good
Accountability	Good	Excellent	Poor	Moderate	Good
Environment for which best suited	Stable	Heterogeneous	Complex with multiple demands	Volatile	Fast-paced
Strategy for which best suited	Focused/low cost	Diversified	Responsive	Innovative	Competitive

Source: Adapted from a presentation by BTR Industries (now Invensys)

TABLE 3.3 **Advantages and limitations of structures**

Structure	Advantages	Limitations
Functional	Small size, single product line Undifferentiated market Scale or expertise within the function Long product development or life cycles	Slow decision-making Hard to determine accountability and judge performance Functional loyalty rather than company loyalty makes co-operation difficult

	Common standards	Does not respond well to rapid change situations
Divisional/product	Product focus Multiple products for separate customers Short product development and life cycle Minimum efficient scale for functions or outsourcing	High cost, loss of economies of scale Difficulty of co-ordinating geographic areas Lack responsiveness to local conditions New product development falls between the gaps
Divisional/geographic	Low value-to-cost transport ratio Service delivery on site Closeness to customer for delivery or support Perception of the organisation as local	Conflict between regions and HQ Implementing new product lines or changes slow and difficult Difficult to apply global strategy Difficult to develop consistency and transfer learning
Divisional/market	Important market segments Product or service unique to segment Buyer strength Customer knowledge advantage Rapid customer service and product cycles Minimum efficient scale in functions or outsourcing Geographic market segments needed	High costs, loss of economies of scale Difficulty co-ordinating geographical areas Less functional specialisation May lack responsiveness to local conditions
Divisional/process	Best seen as an alternative to the functional structure Potential for new processes and a radical change to processes Reduced working capital Need for reducing process cycle times	Challenge to implement: need to redefine the operating culture of the business Clashes occur between HQ and divisions Increased likelihood of process overlap and duplication
Matrix	Flexible: teams may dissolve	Difficult to apply

	after task completion Specialist skills brought to bear where needed Attention paid to product/geography	Supervisor power struggles/overlapping responsibilities Need for a lot of co-ordination Greater transaction costs
Network	Quick response to markets High autonomy, ownership and accountability Less duplication of resources	Lack of deep functional expertise Difficulty with co-ordination between groups Accountability needs to be carefully thought through and made clear
Cluster	Partners focused on particular aspects of the value chain leading to: - greater economies of scale - superior skills developed - reduced redundancy of operations - lowering of barriers to entry - ability to create "a series of short-term advantages"[a]	Clear central direction required Selection of capable partners an issue Keeping partners synchronised problematic

a Galbraith, J.R., *Designing a Reconfigurable Organisation*, Center for Effective Organizations (http://ceo.usc.edu/pdf/G991360.pdf).

There are two frequently asked questions related to structure to which managers and HR staff are anxious to get a right answer:

- How many layers of management should there be?
- What is the right span of control?

Neither of these questions has one right answer. Layers and spans are structured to help managers get work done, so the first part of an organisational decision on the number of management layers and the span of a manager's control requires discussions and agreement on what managers

are there to do.

In general, managers plan, allocate, co-ordinate and control to achieve what the late Peter Drucker described as their three tasks:

- To contribute to the specific purpose and mission of the enterprise.
- To make work productive and the worker achieving.
- To manage the social impacts and social responsibilities of the organisation.

Clearly, determining what configuration of layers and spans is likely to work in a given organisation depends on the situation, organisational purpose and a host of other factors related to the interpretation of what the three tasks entail and the weighting given to each of them.

General Electric (GE), a multinational conglomerate, has learned that as circumstances change so does the need to review layers and spans. Its 2013 annual report states:

To achieve our goals we must simplify GE … Having lived through multiple crisis events in the past decade we attempted to manage volatility through layers and reviewers. Like many companies we were guilty of countering complexity with complexity … We are transforming GE around the "culture of simplification" … We are driving a leaner structure … We have learned that fewer layers, simpler rules and more field empowerment improve execution and accountability … At GE, we think simpler is better. Simplification means quicker execution and closer collaboration with customers. It's a focus on efficiency, speed and market impact.

To help get a good enough answer to the "how many layers" question, there are four rules of thumb (related to the four management activities of planning, co-ordinating, controlling and allocating). Each layer should:

- be flexible and adaptable enough to enable managers to forward plan in a context of constantly changing operating environments;
- facilitate co-ordination between business units (Michael Goold and Andrew Campbell suggest there are six forms of business unit-to-unit co-ordinating activity: leveraging know-how; sharing tangible

resources; delivering economies of scale; aligning strategies; facilitating the flow of products or services; creating new business);

- have appropriate control and accountability mechanisms (note that any task, activity, or process should have only one person accountable for it and accountability and decision-making should be at the lowest possible level in the organisation; overlap and duplication, fuzzy decision-making and conflict resolution processes are all symptoms of lack of adequate controls);
- enable its managers to allocate effectively the range of resources (human, time, equipment, money, and so on) they need to deliver their business objectives.

If these four attributes are working well, it is likely that the layer is adding value to the organisation, in that it is facilitating speed of operation, innovation, integration, flexibility and control. If it is not evident that the layer is doing this, it may be redundant and the reason for its existence should be questioned.

Determining a sensible span of control is possible (though infrequently done) both for an individual manager and for the type of work carried out in a business unit or organisation. The method involves considering the following:[11]

> *The diversity and complexity of the work performed by the organisation, the experience and quality level of the workforce, the extent to which co-ordination or interdependence is important between employees and groups, the amount of change taking place in the work environment, the extent to which co-ordinating mechanisms exist and are effective, geographic dispersion, the extent to which job design and tools allow direct performance feedback to the employee, administrative burdens on each level of management, and expectations of employees regarding development and career counselling.*

FIG 3.1 **The four spans**

Managers can adjust the spans of job design to create positions that are tuned for optimum performance

SPAN	TO NARROW THE SPAN	TO WIDEN THE SPAN
	Narrow	Wide
Span of control	Reduce resources allocated to specific positions or units	Allocate more people, assets, and infrastructure
Span of accountability	Standardise work by using measures (either financial, such as line-item budget expenses, or non-financial, such as head count) that allow few trade-offs	Use non-financial measures (such as customer satisfaction) or broad financial measures (such as profit) that allow many trade-offs
Span of influence	Require people to pay attention only to their own jobs; do not allocate costs across units; use single reporting lines; and reward individual performance	Inject creative tension through structures, systems, and goals – for example, cross-unit teams, dotted lines, matrix structures, stretch goals cross-unit cost allocations, and transfer prices.
Span of support	Use leveraged, highly individualised rewards, and clearly single out winners and losers	Build shared responsibilities through purpose and mission, group identification, trust, and equity-based incentive plans

Source: Simons, R., "Designing High Performance Jobs", *Harvard Business Review*, July–August 2005

In his book *Levers of Organization Design*, Robert Simons suggests that any job comprises four different spans: control (including people, working capital, facilities, infrastructure and intangibles), accountability, influence and support. Each of the spans can be adjusted (see Figure 3.1) to reflect the business strategy and meet current organisational requirements, but to ensure high performance the spans related to the supply of resources (control and support) must be in equilibrium with the spans related to demand for resources (accountability and influence).

CASE STUDY 2

The effects of restructuring rather than designing

ATD Consulting was founded in 2002 as a two-person entrepreneurial venture to meet a need in the marketplace for consulting services focusing on collaboration techniques.

For several years it remained a small company, but in 2008 it embarked on a new growth strategy combined with a branding campaign. By 2012 through organic growth and acquisition the company employed 85 people, had moved offices twice, and was operating primarily as a consultant to government departments in a range of roles from staff augmentation to strategic partner.

ATD's mission was:

To drive peak performance, to enable clients to collaborate and structure solutions that achieve maximum efficiency and profitability, to build trusted partnerships and to help clients navigate through changing business environments with project and transformation management.

The company also cited seven organisational values:

- Collaboration: bringing together disparate people, ideas, thoughts and experiences and blending them to create greater quality and highest value.
- Mutual respect: treating everyone as you would like to be treated and valuing the contributions of others.
- Integrity: acting with high values; doing what is right rather than what is expedient.
- Organisation-centric: all for one, one for all.
- Client-centric: dedicated to making our clients successful.
- Trust and safety: having faith in fellow employees and the organisation, and an atmosphere that enables individuals to try new things, voice opinions and be themselves without retribution.
- Professional excellence: acting with the utmost professionalism, quality, proficiency, respect, integrity and class in all aspects of the work environment.

On the company's website there was an assurance that "the two partners and the executive team work constantly to ensure cross-company collaboration and communication at all times, particularly during this period of rapid growth". In the reception area on a TV screen visitors could see information on the company mission, its staff and products, and the nine competency areas it focused on:

- Strategic and action planning
- Programme management and oversight
- Culture and communications
- Organisation change
- Business process evaluation
- Economic and financial analysis
- Information security management
- Technology studies and assessments
- Requirements management

Until October 2012, ATD was organised according to these nine competences,

each with a competency director. The senior management team comprised the two owners, a chief operating officer, a chief finance officer and a head of business development. There were two small support teams headed by a chief information officer and an HR director. All these people had their own offices and the consultants were housed in cubicles. The organisation had three layers with an average span of eight people.

The offices were located on two floors of a new building. A special leasing deal, and an eye to future growth, meant that the company had a lot more space than people to fill it. There were a number of empty offices and several areas of open space with nothing in them.

In the early summer of 2012, discussions started with the competency directors about the future shape and size of the company. The feeling was that the structure was unwieldy, difficult to operate and confusing for clients. The company was also beginning to lose work to competitors. The owners said that the organisation should be more speedy, flexible and innovative, and integrated with more appropriate control mechanisms.

Agreeing with this, the competency directors discussed the options among themselves and with their teams, and made recommendations that included clearly defining the business strategy and then designing an organisation to deliver it. They had assumed, from their current information, that the strategy included growth, attraction of commercial clients, and a move away from programme management (the co-ordinated management of a portfolio) and towards strategic planning. With this and the organisation values in mind, they consulted their team members and drafted a design and implementation plan that ensured alignment of all the organisational elements and supported the collaborative principles on which ATD was founded.

FIG 3.2 **ATD's new structure**
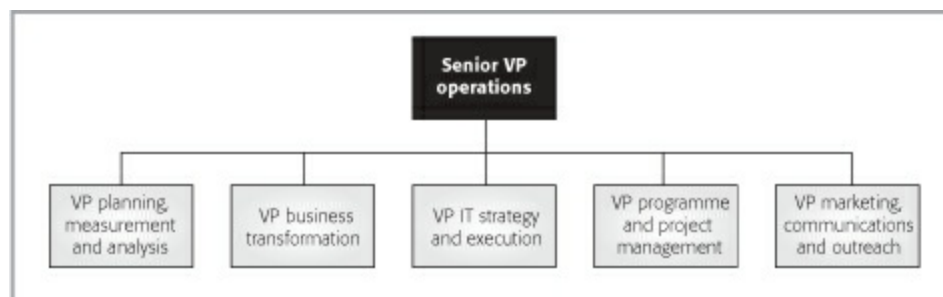
The suggested structure (one aspect of the design and implementation plan) included combining some of the competence areas, which would then operate as self-managing teams in a way that minimised organisational layers and optimised spans. Their plan included aligning all organisational elements.

At a staff meeting in October 2012, a new structure that had not been

discussed with the competency directors or the consultants was revealed in a PowerPoint presentation. It showed the eight competency areas as five lines of business (LOBs), headed by a senior vice-president who had joined the company two weeks previously (see Figure 3.2).

Each LOB was headed by a vice-president: two were former competency directors, two were acting heads and one was someone who had joined the company the previous week. Thus seven competency directors lost their roles (if not their jobs) publicly and with immediate effect. During the presentation the consultants were told which line of business they were now in and to whom they would be reporting.

The new structure did not incorporate any of the recommendations or suggestions of the competency directors and added another layer of management (vice-presidents, senior vice-presidents, CEO and president). It named one of the new staff members senior vice-president operations (giving rise to speculation that he had been recruited with the promise of this although nothing had been communicated at the time of his joining). The two owning partners became president and CEO.

Following the presentation and taking almost no questions about the new structure, the CEO moved to the meeting's next agenda item on organisational values. The stunned workforce was asked to form small discussion groups to discuss the values of "mutual respect" and "professional excellence".

A few days after the staff meeting the seven ex-competency directors were e-mailed a request to leave their offices and relocate to office cubicles within 30 days – even though this would add more empty offices to the existing ones. The new vice-presidents were each given a large office and the latest electronic communication devices.

Six weeks after the staff meeting all staff received an e-mail from the CEO mandating them to attend a workshop, the purpose of which was to "do some visioning – picturing ATD Consultants in the future". The owning partners noted in the invitation: "This is the first step in our strategic review process. We want to hear from you, so be there and be part of it!"

Four months later 16 people had resigned (six of these were the demoted competency directors), leaving clients unhappy as much of the work had to be covered by contractors. The informal organisation communications were about colleagues looking for jobs in other organisations, and the senior vice-president operations was being consistently described as someone with "no people skills" and "iced water in his veins" who expected staff to "salute and execute". The owning partners were struggling to keep their growth plans going in the midst of loss of organisational knowledge and skill, lower productivity, negative messages seeping out into the environment, and a developing culture of compliance rather than collaboration and commitment.

Reflections on the case study

Using the model shown in Figure 1.2 and applying it to ATD Consulting's case exposes some basic design faults.

Although the impetus for the new design was, rightly, driven by the input elements in the model – customer requirements for clearer definition of the consultancy "offering" and the operating context – the first principle of robust design is form follows function. In this case, the new structure (only one part of form) was determined before the business strategy (function) had been developed. The values were in place but were compromised by the manner in which the restructuring was announced and took place. The other organisational elements were not aligned with the structure.

The net effect of introducing a new structure was that it started to dictate how the stated strategic desires – to enter the commercial market, focus on strategic planning capabilities rather than programme management and grow from 85 to 250 people within two years – could be formulated (or not) into an executable strategy. For example:

- The five lines of business reflected a government parlance and orientation that did not translate well into the commercial market.
- The loss of staff with specific and marketable skills made both changing strategic direction and responding to government requests for proposals (the predominant way ATD won work) hard, as the organisation had less knowledge to draw on and fewer staff to act as key personnel on proposed projects.
- The inability to bid effectively for new work, because of staff attrition, led to increasing pressure on remaining staff to get themselves to 100% billable on current projects and to develop follow-on work from existing clients. This change of approach was not lost on the company's clients, some of whom became less favourably disposed towards it.
- Requiring consultants to be 100% billable meant that training, administration, research and collaboration had to be done in consultants' own time, leading an already demoralised workforce into further disaffection.

By overriding the company's stated values and operating principles (see

Figure 1.2), ignoring the work already done on a new design and simply presenting a new structure at a staff meeting, the owning partners lost the goodwill of their workforce. As well as compromising the values of collaboration and mutual respect, the structural change also compromised the value of trust and safety. People began to feel that speaking out about the changes was dangerous, and an intranet site set up for people to ask questions of the president, CEO and senior vice-president operations remained unused. Instead, people gossiped and speculated informally among themselves.

As stated, structure was the only element addressed in the new design. The other five elements that comprise the model – systems, people, performance measures, processes and culture – were not aligned in tandem with the new structure. Inevitably, they were all negatively affected by the changes, leading to disruption and operational downtime. For example:

- Many staff felt that their capabilities were not congruent with the LOB in which they now sat. For several this signalled that the skills they had were no longer valued by the company.

- Some business processes stalled as the methods for operating them in the new system had not been considered. One was the process for responding to requests for proposals, another was the process for project reviews – both were essential in maintaining high-quality business.

- Conflicts surfaced around who owned which projects, which staff and which clients, as several of the projects in hand before the new structure did not necessarily fit neatly into one of the new LOBs.

Thus the five elements of speed, integration, flexibility and innovation, with adequate control, which the CEO and president said they were aiming to achieve, were compromised by a design process that began (and ended) with a restructuring. The resulting output was less than satisfactory. Six months later ATD had still not realised any growth, gained any commercial clients, or moved from programme management towards strategic planning.

Tools for the case study

Had ATD's owning partners approached the design from a whole system perspective rather than a structural one they would probably have been more

successful and carried more staff with them. The lesson is that structural changes affect all other aspects of the operation and it is essential to identify the right organisational structure as part of the organisation design process. Being mindful of the business issues the design is seeking to address and initiating a reflective discussion on potential structures are crucial steps in designing an efficient organisation. Two tools that help frame a discussion are structural evaluation and structural flexibility.

TABLE 3.4 **Structural evaluation tool**

	Yes	**Somewhat**	**No**
1 Do you consciously and periodically structure the organisation to reflect the changing priorities of your organisation?			
2 If so, have you consciously determined your current organisational structure?			
3 Do you have a set of measures that enable you to assess the effectiveness of your current structure?			
4 Do you evaluate your organisational structure on its ability to nourish entrepreneurialism, reduce bureaucracy and maintain control?			
5 Does your organisation currently have different structures in it?			
6 If so, have you identified factors that make these work well and less well?			
7 Do you know the advantages and limitations of the structures you could move to?			
8 Have you assessed the			

importance of the structural element in relation to the other elements in the overall organisation design process (eg, business processes, technology, systems, capabilities)?			
9 Have you considered the costs and benefits of changing the current structure?			
10 Do your staff members currently have the skills knowledge and experience to work in a different structural form?			
11 Have you considered the effect that changing your structure will have on internal and external interfaces and boundaries?			
12 Have you considered the unintended consequences of changing your structure?			
13 Have you considered the risks inherent in changing your structure?			
14 Are you able to say what you have learned from past efforts to change your structure?			
15 If so, do you have the capability to apply the lessons learned?			

Scoring key: If more than 75% of your answers (12–15) are "Yes", your company is addressing the challenge of choosing the right organisation structure. If 50–75% of your answers (8–11) are "Yes" or "Somewhat", there is more work to be done to choose the right structure. If less than 50% of your answers are either "Yes" or "Somewhat", your company needs to re-evaluate its approach to selecting an organisational structure.

Structural evaluation

This tool (shown in Table 3.4), preferably used as part of a whole system design, helps identify a structure that will support business objectives.

Structural flexibility

Invite a mixed group of managers (who represent each level of management) and staff (who represent each level of staff) to a workshop. Select participants not just for the organisation level that they come from but also for their depth of knowledge about the business (its internal and external operating environment) and their ability to discuss future business possibilities. Ask them to suggest at least ten issues or opportunities that are in the pipeline or that might arise within two years (or present them with some).

Now look at the current or planned structure and ask the group members to assess how they would flex and adapt to meet the new situation if it arose. They should focus particularly on aspects of planning, controlling, co-ordinating and allocating for each issue or opportunity, and should check that enough structural flexibility is in place to ensure that there is continued contribution to the mission, that the work is motivating, and that the social impacts and responsibilities of the organisation are not compromised.

For each issue or opportunity, assess and, using the four rules of thumb, decide whether the current or proposed structure will help or hinder resolution of the issue or realisation of the opportunity. If there appears to be a lack of flexibility or adaptability, ask the group to develop a configuration that can cope with changes. This might be by modifying the existing structure, for example specifying roles and accountabilities, or clarifying decision points and co-ordination mechanisms. Or it might be by making more substantial structural changes, for example merging units. (If substantial changes are involved, the exercise is likely to become a full-scale design programme.)

Summary

The aspects of structure discussed in this chapter aim to give enough information to demonstrate that making changes to an organisation chart requires:

- assessment of the current structure;
- reflection on how any new structure can best support the business strategy;
- consideration of various internal and external operating factors that will affect the type of structure chosen and the layers and spans that comprise it.

The case study repeats the message of this book that changing the structure without due consideration of the other operational elements of an organisation is unwise. However, the point is also made that examining the structure is an essential part of designing an organisation, and changing it may be critical to delivery of the business strategy.

4 Planning and sequencing the organisation design

A plan is a list of actions arranged in whatever sequence is thought likely to achieve an objective.

John Argenti, author and founder of the Strategic Planning Society

ORGANISATION DESIGN WORK has tended to follow a fairly formal project management path, but in an increasingly digital world of "social business" (the integration of social media and social methodologies) it has become more and more important to assess an organisation's design continuously to see how well it is working and what adjustments will make it work more effectively.

Designs that are simple, sustainable and deliver business results do not just happen but are the outcome of careful planning and careful implementation. Such planning and implementation involves:

- recognising that the time is right to design by assessing the problems or issues confronting the organisation and its need for change;
- being clear about the design objectives, in order to develop a detailed plan;
- getting support for the implementation, so that the transition to the new design runs smoothly;
- monitoring the new design with appropriate performance measures that enable corrective action to be taken if there are signs of not achieving the intended outcomes.

Also important to bear in mind these days is that because organisations are constantly in flux there may not be an arrival point at a new design, but rather another beginning.

Marty Beard, formerly CEO of cloud-based call centre LiveOps,

continuously redesigned the organisation using real-time data and measurements to keep in touch with the changes he needed to make to stay competitive. He got rid of telephones and banks of screens full of information, and when he left the company it had multiple channels with which to interact with customers, including Twitter, chats, Facebook and so on. During his time in post LiveOps grew by 55% while many competitors lost ground.

For well-established organisations with a project-based approach to organisation design, being able to keep to the budget and schedule depends on many factors, including the scope and scale of the design, the model, and the planning and implementation techniques used. Go into any project manager's office and on the wall are likely to be quotes like "Overruns are as certain as death and taxes" or "Any project can be estimated accurately (once it's completed)".

However, some designs can be complete and functioning effectively within a few weeks, as in this IKEA example:[1]

IKEA, applying the principle of "whole system in the room", created a new structure and process for product design, manufacture, and distribution, decentralising an agglomeration of "silos" that no longer served. Some 52 stakeholders examined the existing system, developed a new design, created a strategic plan and formed task forces led by key executives to implement it. In 18 hours, the plan was developed and signed off on by the company president and key people from all affected functions, with active support from several customers. (Note: The process was operational within eight weeks.)

Other designs can take several years, as in the case of General Motors (GM), which has undergone several major restructurings. For example, the restructuring of the global product development group took over three years and encountered a lot of resistance. It involved streamlining and simplifying the way things were done, reducing the number of managers on each vehicle development team, and revamping the product development process, breaking down each platform into modules and subsystems that could be more easily shared from region to region.

This chapter explains how taking a programme management approach provides a robust framework for planning and sequencing organisation design

work at whatever scale is required.

High-level design plan and sequence

In an ideal world a new organisation design has a beginning, middle and end, each of which has been carefully initiated, structured and thought through in a logical sequence. Figure 4.1 provides the high-level view of a structured design process that is clear to visualise and straightforward to work with.

The organisation design programme starts with the business case (first row of Figure 4.1). Once the business case is accepted the organisation design programme is established: the governance and day-to-day operational management of the work (second row). The third row names the four phases that a design programme typically goes through: assess, design, implement and optimise. Critical to organisation success are five aspects – the change enablers – that must be built into the detailed plan (fourth row). The fifth row calls out these five enablers of success: leadership support, stakeholder engagement, change readiness, communication and training.

FIG 4.1 **Overview of organisation design plan and sequence**
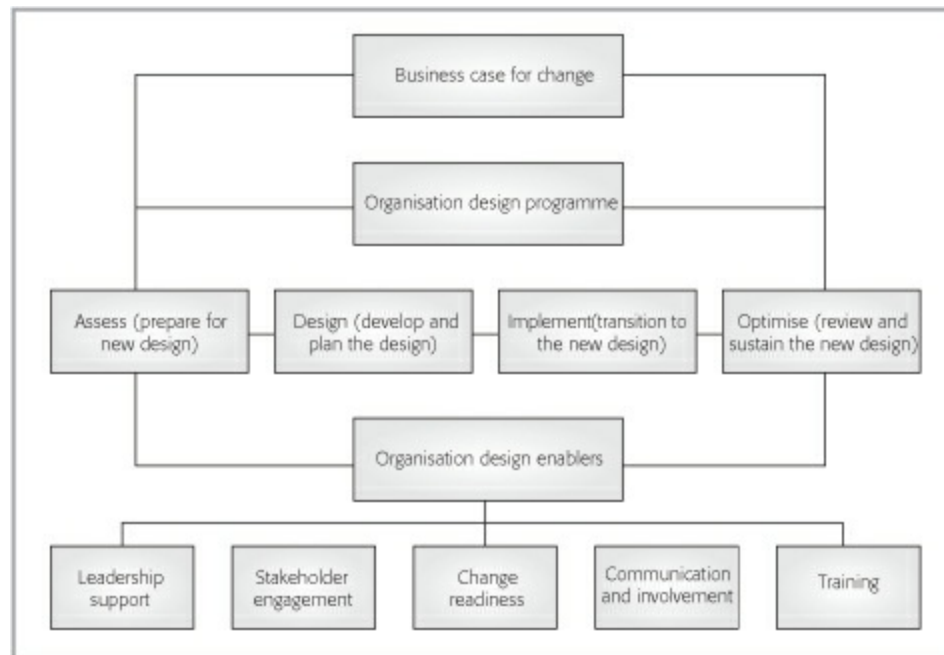
Although it is presented as a neat hierarchy with a linear sequence, in practice the process is much more iterative and messy. One thing merges with another, things happen and the edges become blurred. View the process as a

map of how to get from A to B: experience proves that following the map will often involve getting lost, doing U-turns, backtracking and going along dead-end streets. The map may be accurate, but using it may not be as straightforward as it seems. Just like following a map, following a systematic process for planning and sequencing the design provides the basis for a high degree of transparency and control and helps get things back on track as necessary, but it may not be an easy and sequential journey from start to finish.

The business case for change

A business case (first row of Figure 4.1) puts the argument for changing from the current design to a different one. If the case is well presented, it helps organisation decision-makers make the right investment decisions related to a range of social, technological, economic, environmental, political, legal, financial and other factors that have an impact upon the proposed design (see Chapter 1).

Organisations usually have some kind of template for the making of a business case. For most large organisations these include sections on five aspects:[2]

- **Strategic fit.** How well does the proposed way of meeting the requirement support the organisation's objectives and current priorities? Does the scope need to change?

- **Options.** Has a wide range been explored, including innovation and/or collaboration with others?

- **Achievability.** Can this project be achieved with the organisation's current capability and capacity (such as other projects with a high priority that must be delivered at the same time)?

- **Value for money.** Can this be obtained from proposed sources of supply such as current suppliers? Does the project need to be made attractive to a wider market?

- **Affordability.** Is the budget available to deliver what is required? If not, can the scope be reduced or delivery extended over a longer period, or funding sought from other sources?

Considering each of these areas helps ensure that a proposed new design

is congruent with strategic objectives, that it is workable, and that it has a clearly defined purpose. Without a tightly defined business case and sometimes even with one, things can go disastrously wrong.

The organisation design programme

The second row in Figure 4.1, organisation design programme, is the "office" of the new design. Regardless of the scope or scale of the design, a governance structure for it must be established to provide a framework for the upheaval that a new organisation design inevitably creates.

Governance comprises the way the organisation design programme is directed, controlled, organised, managed and administered through various policies and procedures. The UK Department for Business, Innovation and Skills' *Guidelines for Managing Programmes* presents nine themes for governance to help design and implement a control framework through which to deliver change, achieve outcomes and realise benefits:

- **Organisation:** a clearly defined and effective programme management function that includes a senior management sponsoring group and a programme manager, who is responsible for overseeing the life cycle of the programme, monitoring assurance and quality, managing programme risks and stakeholder communication, and delivering the programme on time and within budget.

- **Vision:** a picture of the end goal the programme must achieve.

- **Leadership and stakeholder engagement:** how to identify and manage relationships with stakeholders who will or may be affected, and the leadership required to direct, influence and motivate others towards the desired outcome.

- **Benefits realisation management:** a way of identifying, defining, tracking and optimising the realisation of benefits (and drawbacks).

- **Blueprint design and delivery:** a model of the operational capability that will need to be put in place to enable the required outcomes and benefits.

- **Planning and control:** the integration of the various governance strategies and plans to produce a programme plan and a control regime.

- **Business case:** an optimum mix of information about the programme's benefits, costs, risks and timescales used to judge whether or not the programme is (and remains) desirable, viable and achievable.

- **Risk management and issue resolution:** the approach to risk and issues management and how the processes will be applied across the programme, its projects, its transition activities and operational areas that will undergo change.

- **Quality management:** a method to determine that all aspects of the programme (including its projects and transformation activities) are appropriate and fit for purpose.

A governance structure can be simple or complex depending on the organisation design programme. Figure 4.2 illustrates the governance structure of a British Airways (BA) programme to introduce a global human resources system. A smaller project is likely to have a governance structure that in this graphic is labelled "project management" (that is, only that below the dotted line).

Given the scale and size of this project, it was imperative to have a robust programme management office. One of the lead external consultants working with BA on this project noted:

British Airways decided to set up an independent Programme Management Office. It's made a world of difference to me, as one of the systems integrators. The requirements are clearly specified, at last I have access to the people and information I need. Everyone can see what this system is designed to achieve and where it fits into the greater whole. There's no more stone-walling between the stakeholders.

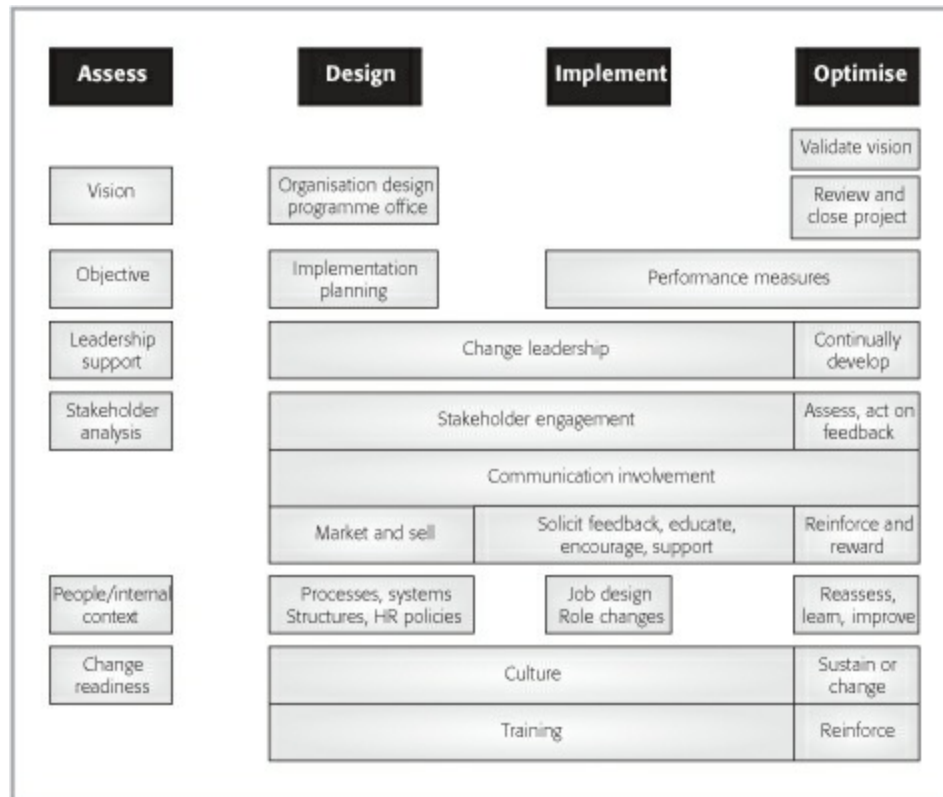FIG 4.2 **Organisation design programme governance structure**
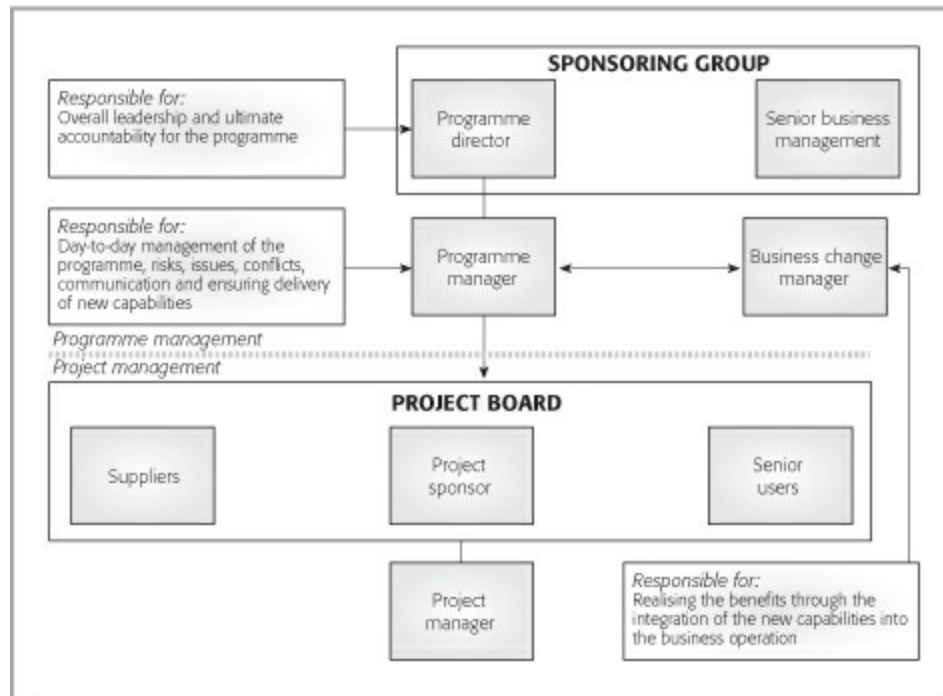
Source: *Managing Successful Programmes (MSP)*, 4th edition, TSO

The four phases of the design process

The third row of Figure 4.1 shows the four phases of an organisation design programme: assess, design, implement and optimise. Figure 4.2 illustrates the activities that typically take place in each of the phases. Note that the activities embrace the change enablers shown in the fifth row of Figure 4.1 (leadership support, stakeholder engagement, change readiness, communication, training) and the six organisational components (systems, structure, people, performance measures, processes, culture – as shown in Figure 1.2) that need to be aligned as the design work proceeds.

This blueprint forms the basis for planning during the assess and design phases of the organisation design work (see Figure 4.3). Among the documents that come from working with the blueprint is a detailed plan with activities, tactics, milestones, critical success factors and other measures aimed at helping employees make the transition from the current to the future state.

FIG 4.3 **Organisational design: phase blueprint**

Assess	Design	Implement	Optimise
			Validate vision
Vision	Organisation design programme office		Review and close project
Objective	Implementation planning	Performance measures	
Leadership support	Change leadership		Continually develop
Stakeholder analysis	Stakeholder engagement		Assess, act on feedback
	Communication involvement		
	Market and sell	Solicit feedback, educate, encourage, support	Reinforce and reward
People/internal context	Processes, systems Structures, HR policies	Job design Role changes	Reassess, learn, improve
Change readiness	Culture		Sustain or change
	Training		Reinforce

Phase 1: Assess

Vision

All proposed organisation designs require a description of what they will look like when they are complete. In much the same way that an architectural model of a building describes what the completed building will look like, so an organisation design vision tells people what to expect in terms of new capabilities, service levels, competitive position, and so on.

An example is GE's vision for the Industrial Internet of Things, launched in 2012, which Jeff Immelt, GE's CEO, thinks will take a decade to realise. Briefly, his vision is not to just build big machines like locomotives or jet engines but also to create "intelligence" within the machines "which would collect and parse their data". Immelt believes that the marriage of big-data analysis and industrial engineering promises an almost unimaginable range of improvements:[3]

> *Take the jet engine. It has about 20 sensors that capture real-time continuous data – temperature, engine performance, etc. If I can take that*

data and use it to model a consumer outcome – say, more time on the wing or less fuel burn – that's worth an awful lot of money to my customers. A 1% change in fuel burn for an airline is worth hundreds of millions of dollars.

The vision of the industrial internet is one of using big-data analytics to track such changes and provide what Immelt describes as guaranteed outcomes that will optimise performance to undreamed-of levels. The vision involves making locomotives, jet engines, gas turbines, water pumps, oil and gas drilling equipment smarter and more networked. "The goal is to wring small improvements and the ensuing massive savings from all of them."[4]

Note that this vision is not for the whole of GE's enterprise but is focused on the industrial equipment business. If the new organisation design programme is for only part of an enterprise, as in this case, you must be certain that the vision for the design is completely aligned with the vision for the whole enterprise. (Nadler's Congruence Model discussed in Chapter 2 illustrates the need for a single overarching vision that business-unit visions must "play into".)

Every leader and manager directly and indirectly affected by the new design must be able to communicate its vision in a compelling way. People have to understand why the new design is required right now and in the way proposed. They also need to know what part they will play in realising the vision and why they should make the effort to participate. The vision must then be communicated consistently within and across the enterprise, allowing for different slants to reflect the different circumstances of business units or departments. As mentioned above, part of communicating the vision includes leaders showing their belief in it through personal passion and emotional energy. They need to convey that everyone, including themselves, is affected by the new design. They must also acknowledge the human elements that will be involved: stress, fear, resistance and concern about long-term security.

Objectives

Frame the objectives of the organisation design programme in a way that aligns with the vision/mission, values and strategies. (Figure 1.2 illustrates the flow-down of objectives from vision.) In the case of Chipotle, a fast-food chain, the objectives are stated as a "focus" that reflects the organisation's mission:[5]

Our vision is to change the way people think about and eat fast food. Our approach is guided by our belief in "Food with Integrity".

Our focus:

- To find the highest quality ingredients we can to make great tasting food – ingredients that are grown or raised with respect for the environment, animals and people who grow or raise the food
- To build a special people culture that is centred on creating a team of top performers empowered to achieve high standards
- To build restaurants that are operationally effective and aesthetically pleasing
- Doing this with increasing awareness and respect for the environment

In the assess phase of an organisation design programme the links between the vision/mission and the objectives are confirmed. In later phases specific performance measures for each objective are determined, implemented and embedded. Measures are discussed further in Chapter 5.

Leadership support

This is one of the change enablers shown in the fifth row of Figure 4.1. Building leadership support is integral to getting the business case for the design work accepted and continues during the assess phase. A high level of leadership support is essential for organisation design work of any size, and it must be obvious and demonstrated. If leaders are signed up and understand their role, they will:

- make the change vision clear, inspiring and shared;
- communicate the compelling rationale for change that will motivate people to make it work;
- make resources available and clear blockages;
- demonstrate commitment and energy to the new design;
- ensure that the design work is given a clear priority in relation to the business plan;
- maintain the design as a high priority on the organisation's agenda;

- enrol and develop their own management team, keeping them on side;
- model new behaviour and ways of working;
- increase visibility and availability in order to answer questions, tell a compelling story and keep stakeholders on board;
- celebrate and publicise the reaching of milestones and success points as the new design is implemented.

Not every leader is able to do this effectively or skilfully. Many fail to appreciate that taking people through a change process has a different emphasis from the role of operational or strategic leadership. In these instances, the type of approach taken by Thea Green, founder of Nails Inc, in increasing the size of her company from one shop in 1999 to around 60 shops serving 10,000 customers a week in 2013 has paid off.

She has fostered a creative culture in which friendships can flourish and employees receive various treats. For example, each week they can request an item on the Ocado food order; each month they get the product of the month as a free gift; they are given free manicures; and every so often they enjoy Pizza Fridays.

FIG 4.4 **Stakeholder groups**
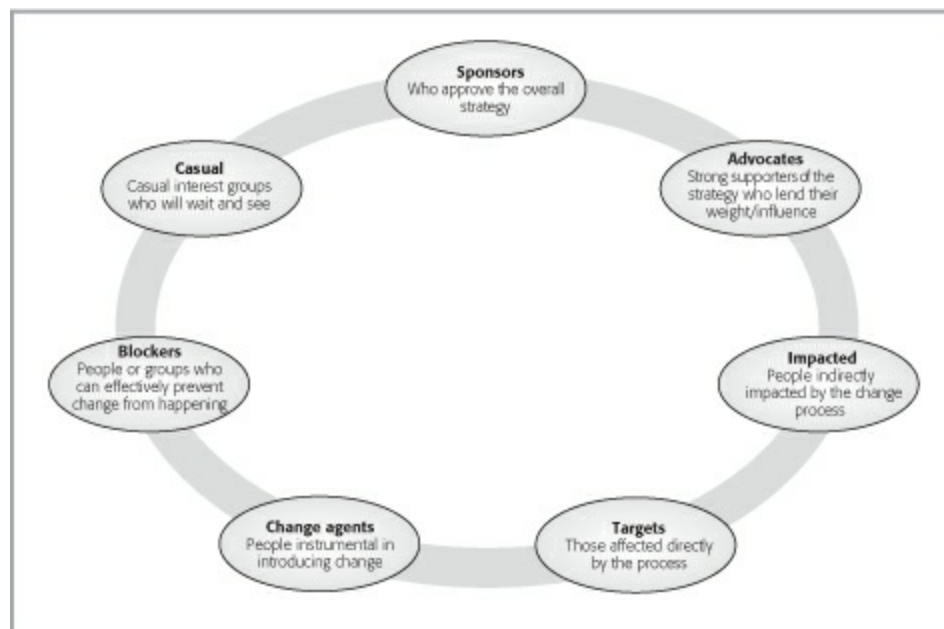
To make sure that everyone is working towards the company's success,

Green established creative brainstorming where people from all levels in the organisation get together to talk about improvements that could be made. If someone does not contribute to the discussion, they are not invited to the next one. Green observed that this results in everyone in the room paying attention and saying something meaningful.

Stakeholder analysis and engagement

Stakeholder engagement is one of the change enablers shown in the fifth row of Figure 4.1. It is important to identify early on the individuals and groups who can have a good or bad influence on the success of the intended organisation change. Figure 4.4 illustrates the major groups of stakeholders typically found in organisation design projects. Mapping stakeholders at the start of the design process is essential in order to track their engagement during the project. The process of stakeholder engagement is discussed in Chapter 6.

The goal of stakeholder engagement is to:

- identify individuals or groups affected by and capable of influencing the design;
- explain the initiative to the key stakeholders;
- assess their interests and areas of resistance, and how they might help or hinder progress;
- agree their roles and responsibilities within the programme.

Although this activity is initiated in the assess phase of the blueprint, it is one that is continued throughout the life cycle of the organisation design programme (as stakeholders can rapidly change their views and positions).

People/internal context

The amount of activity in this category depends on the scope and scale of the organisation design project. Typically, it includes looking at the workforce profile, including number of people, diversity mix, location, skills, age and grade mix, length of service, and productivity. Often cultural indicators and/or employee engagement information is included in this part of the assessment.

Change readiness

This is one of the change enablers shown in the fifth row of Figure 4.1. The change readiness curve shown in Figure 4.5 illustrates where people typically are in relation to a new product, service, or system. For example, Facebook, which was launched in February 2004, had a million users by the end of that year; by March 2013 there were 1.1 billion users. People joined Facebook as they became aware of it, gained understanding of its use as they saw their friends join and tried it out for themselves; they then adopted it to stay in touch with friends, publicise their connections and scale them up. In a relatively short time Facebook reached the point of institutionalisation. What the change curve does not show is that in the case of products and services there is often a saturation point, and sometimes downturn or collapse. Indeed, during 2012 and 2013 there was speculation that Facebook had reached saturation point at least in the UK and that its 2014 acquisition of What's App (a chat platform) was propelled by a strategy to develop a wider international presence and attract a younger customer group.

FIG 4.5 **Change readiness curve**
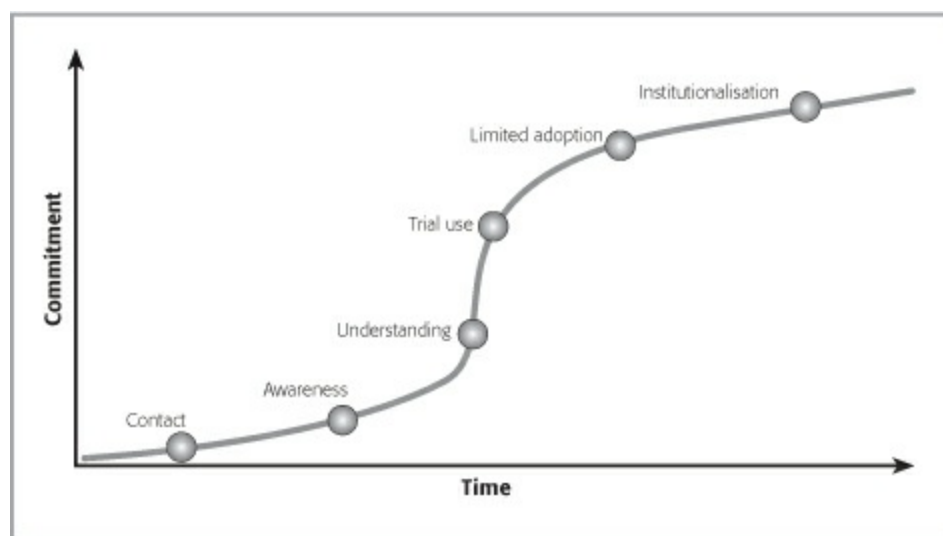
It is the same with change associated with a new organisation design. People affected by a change have to reach the top of the change curve before the change is successfully embedded. Assessing how change ready they are in principle – will they be early adopters or will they only slowly or perhaps never adapt – helps get the design and implementation phases of the programme right for those it will have an impact on, using a variety of tactics and strategies to move them up the change curve. As part of a broad

reorganisation announced in 2007, BP Convenience Retail USA & Latin America instituted an 18-month programme to convert its remaining 800 company-owned US retail outlets to 100% franchises with a revamped store brand and new marketing approaches. Selling the outlets to franchisees would eliminate 10,000 jobs – virtually all the people employed in BP's convenience retail business. This included 9,500 store employees and an additional 500 support staff at two headquarters. For the store employees, there were no guarantees that the new franchise owners would hire them.

Fiona MacLeod, the senior manager in charge, had the difficult task of motivating store employees to reduce overheads and improve operations, even though they faced "huge uncertainty" about future employment. "Our people were displaying the classic signs of change fatigue … people were very jaded" and lacked confidence that they could make things better, she said. To maintain momentum, her approach was to:

- build confidence and trust by asking employees to examine the business case for the change, and suggest how it might work;
- talk about the gains to employees in the proposed new world;
- show empathy for what they were going through;
- provide regular updates on progress tracked against performance measures;
- communicate through a range of channels to develop skills in continuous improvement;
- offer retention bonuses to be paid at the time the store was sold in good shape to franchisees;
- celebrate success, recognising achievement and making people feel good about the business.

The extent to which stakeholders recognise and accept the need for change is determined by assessing aspects such as leaders' ability to manage change, levels of commitment to change, and the strength and extent of barriers to changes in the organisation's culture and processes. Change readiness assessments are valuable because they help clarify where a design programme might run into problems and they enable plans to be developed to make people ready for change. They identify possible barriers, enablers and risks, which in turn helps identify where to focus change implementation
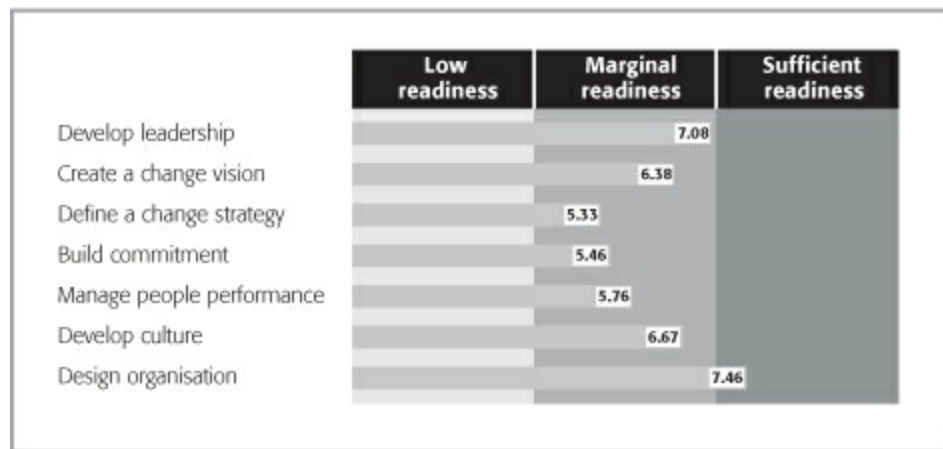
management activities and resources.

Depending on the assessment used they will highlight, for example:

- how far people subscribe to the organisation design vision;
- how much commitment to the planned initiative needs to be built;
- what impact people's current performance and skill levels are likely to have on the success of the initiative;

FIG 4.6 **Example change readiness assessment results**

	Low readiness	Marginal readiness	Sufficient readiness
Develop leadership		7.08	
Create a change vision		6.38	
Define a change strategy	5.33		
Build commitment	5.46		
Manage people performance	5.76		
Develop culture		6.67	
Design organisation			7.46

- the need for any changes in leadership behaviour and activity;
- the degree of support for the proposed changes throughout the organisation and from other stakeholders;
- the barriers to and drivers of change;
- the issues that must be tackled to facilitate the change process.

With this information to hand, recommendations can be made on reducing the risk of failure, and the implications for achieving a successful design, given the current organisational conditions, can be set out. Figure 4.6 illustrates the results of a change readiness assessment, from which insight into what needs to be addressed can be gained.

Assessing change readiness is not a one-off process and it must be monitored as the design phases proceed. Ways of doing this include:

- interviewing a cross-section of stakeholders;
- social-media comment and traffic analysis;

- web-based groupware/collaborative sessions with small groups of employees and other stakeholders;
- reviews of any survey data and other relevant existing studies or documentation;
- targeted e-surveys;
- off-the-shelf survey instruments, such as the organisational culture inventory, team effectiveness inventory, or change readiness questionnaire;
- risk assessments of change;
- change readiness workshops and focus groups;
- storytelling (see Chapter 2).

In the process, pay attention to how, for example, what people say in one channel, such as social-media posts, differs from what they say in a more formal face-to-face interview.

Phase 2: Design

Organisation design programme office/team

This is row 2 in Figure 4.1. Aspects of a formal programme management office for organisation design work are described earlier in this chapter and in Chapter 7. Small-scale projects will not need the formality of a programme office, but it is important to have more than one person working on organisation designs. Whatever their size they have a degree of complexity, and it is useful to get a range of perspectives on progress towards objectives. At a minimum, a design team should comprise a representative cross-section of the organisation under review. The approaches advocated in Chapter 2 provide insight into ways of inviting participation and involvement from people who will be affected by the new design. To design and implement a transition, the team members must have a clear picture of the processes managed at each level in the organisation and be capable of influencing others, negotiating and lobbying effectively on behalf of the project.

The role of the team in the design phase is to plan the implementation path, aligning all the various stakeholder interests and components (see Chapter 2) of the organisation to support the new design. Monitoring,

evaluation, risk management and quality assurance are essential programme management activities. Together they create an environment that keeps people motivated and involved during the transition while continuing to do their normal day-to-day work.

The design team's composition may change as the implementation proceeds. Choosing the right people is crucial, as they must not only be capable but also be seen to be capable, they must have sufficient experience of what they are there to do and, of course, they must be fully committed champions of the project.

Processes, structures, systems, human resource policies

The design phase task is to plan the alignment of processes, structures, systems and human resources (HR) policies with each other and with the objectives and vision of the design work. The important thing to remember is that changes in one area have repercussions, intended or not, in another area. Depending on the objectives of the organisation design programme, there will be work on the following:

- Business processes, including internal workflows, such as recruitment, and workflows between companies, such as procurement of products.

- Structures. Structural options are discussed in Chapter 3, but where the organisation design demands structural change the work must be planned and carried out by the design team(s) in close liaison with relevant stakeholders. Structural work may include major or minor changes to the main structure, reporting structures, management layers, spans, communication and decision-making between different parts of the enterprise, workforce profile, and so on.

- Systems, including financial systems, management information systems and other IT dependent systems.

- HR policies, including reward and recognition, job designs, headcount, career progression and training. One of the reasons for lack of success in many new organisation designs is that HR systems and processes fail to keep pace with the scale and implications of the change. All HR plans, policies and systems must support the intended design outcomes.

Netflix's freedom and responsibility culture

In 2011 Netflix, a provider of on-demand internet streaming media and DVD by mail, published its Freedom and Responsibility Culture document, which has been viewed by millions on Slideshare. It explains the company's management philosophy and illustrates how the organisational elements are designed to work together to deliver success. Everything hinges on nine behaviours and skills: judgment, communication, impact, curiosity, innovation, courage, passion, honesty and selflessness. Alongside these are some business precepts: minimise complexity growth, "good" process versus "bad" process, minimise rule creep, stop tracking some things (such as vacation time taken), go for flexibility rather than efficiency in the long term.

Source: Hastings, R., "Netflix", Slideshare, August 1st 2009 (www.slideshare.net)

Change leadership

Leadership support (discussed earlier) is a requirement through the life cycle of the programme. Corrado Passera, when CEO of Banca Intesa, a leading Italian bank, described the role of the top team and of leaders throughout the organisation during the design process:[6]

> *Change initiatives only take root through a well-functioning top team and committed leadership across the organisation. That means having a credible organisation and model in the first place. It has to be clear to everyone who is doing what … People in the company must understand that you are part of a group that works well together. The way to fail in a transformation is to have managers at the top who are fundamentally reluctant to push through change. If that is the case, people will try to exploit the situation and to get between you, as the leader, and your colleagues.*

Stakeholder engagement/communication and involvement

A communication plan should be developed and put into effect during the assessment phase. Early and adept communications stall the rumour mill and pave the way for building trust that people will be kept informed as the design is shaped. Using a variety of media and techniques to communicate with the various categories of stakeholders is more successful than a one-size-fits-all approach.

Intercontinental Hotels Group (IHG) explains its approach:[7]

We engage with stakeholders through a variety of channels, including social media [Facebook and Twitter], forums, meetings, individual interviews, surveys, conferences and our online CR [corporate responsibility] report. In 2013 we continued to focus on stakeholder engagement through our refined stakeholder engagement process and channels …

Updating our employees and hotel operators on what we're doing is an important aspect of helping us achieve our objectives. Our "Resource Centre" on our company intranet, Merlin, keeps our employees and hotel operators up to date with our programmes. A suite of downloadable tools means they have our key resources to hand too.

Communication experts segment stakeholder groups by internal and external "audience", using different tactics, channels and messaging for each segment in each of the four organisation design phases:

- Assess phase – focuses on "marketing" the possibility of or need for a new design.
- Design phase – educates on features of proposed designs and seeks feedback on them.
- Implement phase – encourages and supports transition to the new design.
- Optimise phase – reports on successes, lessons learned, and milestone progress.

An example is Netflix, mentioned earlier, where Reed Hastings, the CEO, considered a radical new design for the organisation but met a negative response from a group of external stakeholders – the customers.

Netflix: a negative response

On July 12th 2011, with little warning, Netflix announced that if its customers wanted to continue receiving the movies and television shows on DVDs that arrive through the mail in its signature red envelopes, they would have to pay $7.99 a month for the privilege. If they wanted monthly access to streaming content over the internet – no DVDs or mail involved, just instant gratification – the cost would also be $7.99. If they wanted access to both DVDs and streaming content, the

price would be $15.98 a month ($7.99 plus $7.99), up from a combined monthly price of $9.99.

It took about a nanosecond for Netflix's 24m or so customers to realise that they were being hit with a 60% price increase; what had once cost $10 a month would now cost $16. More than 800,000 Netflix subscribers dropped the service within months of the July announcement.

As customers continued to flee, Hastings leapt into the fray to try to explain. On September 18th on the Netflix Blog he wrote:

> *I messed up. I owe everyone an explanation. It is clear from the feedback over the past two months that many members felt we lacked respect and humility in the way we announced the separation of DVD and streaming, and the price changes. That was certainly not our intent, and I offer my sincere apology.*

He then proceeded to make matters worse by announcing that the DVD-by-mail service would be split from the streaming service and renamed Qwikster, with its own website and CEO. The streaming service would still be called Netflix, but keeping both services would now be even more cumbersome, requiring two separate accounts, two separate monthly credit-card charges and twice as much effort as before.

Netflix's share price went into free fall, dropping to $113 per share in early October, compared with $210 in the second week of September. It hit a low of $62 a share in November, despite Hastings having pulled the plug on Qwikster on October 10th.

Source: Cohan, W.D., "Seeing Red", *Vanity Fair*, February 2nd 2012 (www.vanityfair.com)

By 2014 Netflix had more than recovered the ground it had lost and was experimenting with various price points to offer choice to subscribers. Its share price was over $350, its US subscriber base had reached over 33m, and it had over 44m subscribers worldwide.

Increasingly, communication is two way, with organisations encouraging input from stakeholders to help inform their business. For example, Lego, a toymaker, has a crowdsourcing site (http://lego.cuusoo.com/) where people who have an idea for a Lego product, and can get 10,000 people to support them, can have it reviewed by the company. If it is chosen for production, the designer receives 1% of the total net sales of the product. In such a case, an organisation may need to adapt its design if it is to respond effectively to customer input.

In the early stages of a design project, communication has a strong change management purpose. As the project continues, communication provides more of a front-end to knowledge management. Thus affected audiences know where to get more information on continuing strategy and plans, training programmes, or other resources that can help them understand the organisation design programme, its impacts and their role in its success. It is good practice for an organisation to prepare procedures and templates for crisis communications, should there be a need for a fast response to an emerging issue.

Culture

Questions about culture usually centre on how to design to break down the silo mentality in the organisation. Pankaj Patel, executive vice-president and chief development officer at Cisco, did this during 2012. He created a matrix model with a vertical structure of products, such as Unified Computing System Manager or Nexus 7000 Series Switches, and a horizontal structure of common elements that cut across all products, such as security or mobile components. A business head is responsible for both a product, say the Nexus 7000 Series Switches, and a common component across all the products.

Before the matrix structure was introduced, the work was done in vertical silos. Each product owner developed their own security elements, mobile components, etc. The new silo bridging strategy brought discipline, consistency and efficiency to the operation.

As well as leaders like Patel sending "the steady flow of signals" about acceptable behaviour, designs can reinforce cultures of collaboration, knowledge sharing, innovation, or whatever is thought to be a desirable culture by aligning other organisational components in support. After leadership signals, reward and recognition systems have the most significant effect on changing or maintaining the culture. Beyond these aligned value sets, job designs and organisational structures all bolster the desired culture. An example is the approach of Nordstrom, a US department store, where things are kept simple. For many years each new employee was given a one-page welcome (see below).

WELCOME TO NORDSTROM

We're glad to have you with our Company.
Our number one goal is to provide
outstanding customer service.
Set both your personal and
professional goals high.
We have great confidence in your
ability to achieve them.

Nordstrom Rules:
Rule 1. Use your good
judgment in all situations.
There will be no additional rules.
Please feel free to ask
your department manager,
store manager or division general
manager any question at any time.

This is no longer issued, but its concept is core to the continuing operation of the business as the code of conduct emphasises "use good judgment":[8]

At Nordstrom, we expect you to use good judgment when it comes to taking care of our customers and in your interactions with other Nordstrom employees and vendors … When we talk about using good judgment, it's really about how we treat our customers, how we treat each other and how we do business.

With earnings in 2013 that exceeded expectations, Nordstrom's customer-centric strategy continues to bear fruit and its success over the years is notable in the harsh world of retailing.

Training

As the new design is developed and implemented, new skills (soft and hard) required for successful outcomes will be teased out. Obviously, training people in the right things and in good time is crucial (but does not always happen), and appropriate methods of developing staff must be instituted. Change management skills development should be included as part of the overall skills and training programme. Organisation design training is usually related to the following:

- Going through the change process itself. Employees affected by the new design will be in the front line of the change process and therefore must know how to contribute to the change as effectively as possible and how to work within changing circumstances.

- New systems, technologies, or processes – the way new systems operate and the technical aspects of doing work with different equipment or different interfaces.

- The work of the business when it has been "re-engineered". If the nature of employees' activities and responsibilities changes, they are likely to have to acquire new expertise in the way they fulfil their role or do their jobs.

Within these three areas the training should be tailored to specific stakeholder groups and provided in a variety of appropriate ways, including coaching, e-learning, face-to-face instruction, self-paced learning and on-the-job training.

Tailoring the training related to change, new ways of working, new systems and processes, and new job roles requires careful thought and sensitivity. For example:

- Develop training that is linked to the overall business strategy, that positions the new organisation design as a business benefit, and that is delivered at appropriate points in the project life cycle.

- Establish collaborative relationships that pool resources in order to train employees in a time and cost efficient way. (Often training and development costs are discretionary, so training efforts may be limited as a result of budget constraints.)

- Make training available in a variety of formats, acknowledging different learning styles and access to training programmes.

- Recognise that training related to a new design puts an added burden on staff. This limits time that can be spent on activities that are not essential to day-to-day productivity.

- Build training content from employees' current strengths (for example, knowledge of their customers, insights into organisation culture, history of how work gets done). Give them the capability and motivation to be high performing in new roles and to do their work in

new ways, and equip them more fully to provide effective customer service.

Phase 3: Implement

Performance measures

As the organisation design is implemented, all the elements that contribute to it – systems, processes, technology, structures, capabilities, and so on – must be monitored and measured, as must risks, successes, milestones, small wins and lessons learned. Without adequate tracking it is impossible to keep the project heading in the right direction. Powerful business intelligence and the use of analytics will help achieve this.

As an example of the power of analytical information, Tom Davenport, an American academic and author, suggests in his book *Big Data @ Work* that:[9]

> *Big data changes not only technology and management processes, but also basic orientations and cultures within organisations. We simply can't think about business in the same way with this new resource.*

He cites several organisations that are closely analysing the performance of their processes, making organisation design changes as appropriate, and continuing to monitor and follow up. Pointing to companies that are making use of big data to develop new product and service offerings, he identifies LinkedIn as having "used big data and data scientists to develop a broad array of product offerings and features. These offerings have brought millions of new customers to LinkedIn, and have helped retain them as well."

In developing new products and services and bringing in/retaining customers, the alignment of all organisational elements is required to achieve an intended outcome. Jeff Weiner, CEO of LinkedIn, confirms this:[10]

> *Being able to execute well quarter after quarter involves putting the necessary processes in place early on, which is typically a lot less glamorous than pursuing the next technology breakthrough. In addition, you need to be constantly revisiting this stuff, because the infrastructure you put into place five or ten years ago, in a world dynamic such as ours, is something you're going to have to reinvest in.*

Beyond the quantitative monitoring, and because organisation design activities inevitably involve people's emotional reactions to change, these qualitative aspects must be monitored too. Failure to "take the temperature" of the people constitutes a significant risk to organisation design success. Other more qualitative aspects include looking for signs that:

- transition to the new state is disrupting normal business operations;
- relationships are being fractured or broken;
- things are going (or not going) well.

Chapter 5 discusses measures and monitoring in more detail.

Job design/role changes
Organisational change inevitably brings with it changes in job descriptions and the creation of new jobs. This is sensitive, and so requires the close involvement of the organisation's HR managers, whose knowledge of the timing, content and impact of any suggested changes in job descriptions, career paths and succession planning should help ensure a smooth transition.
Generally, approaches to job design should result in:

- logical entrance levels and career patterns for employees to move to more skilled and higher-graded positions;
- strategies to enable suitably qualified personnel to occupy new or continuing positions (sometimes this means staff having to reapply or apply for their jobs);
- the identification of training and development needs to meet future staffing requirements.

Phase 4: Optimise

Planning and implementing the optimising of a new organisation design often takes a back seat to the work that goes on in the earlier three phases. It is as if all energy has been expended in assessing, designing and implementing, so actually living the new design becomes "Ho hum, we're there now", rather than an energetic exploration of what is working well what is not and how to keep continuously adjusting.
If there has been a true alignment of all the various components during

the earlier phases, optimising should be a straightforward matter of a thorough post-implementation review or reviews, listening attentively to feedback and making adjustments in the light of any areas found wanting.

The more complex a design, the more likely it is that further steps and stages will be necessary for the design to become optimal. Cocoon Projects, a small, open enterprise committed to starting, supporting and accelerating value-driven innovative projects, has an intriguing "liquid organisation" model of continuous optimisation of its design, based on four pillars of operation:[11]

- A collaborative working board. This shows progress of work and workflow so the work in progress is deliberately limited. There is no assignment of activities but a "pull" mechanism by people who decide to start what has been collectively approved as "to be started" and then collectively prioritised.

- A credits accounting system. Each governance activity has a value in credits, estimated by all the participants in that activity and averaged by the system. As the work progresses, the estimates are updated until the activity is completed.

- Decision-making support. Operational decisions for single activities on the collaborative board are taken by the company members using what is termed "lazy majority" voting. In this system, decisions are taken by counting the votes of the members who have voted within a pre-defined time period, which is usually between two and five days; people who have not voted by then have to accept the majority decision of those who have voted in the time period.

- Reputation tracing. An open-governance system that clearly shows which members are contributing and the behaviour they exhibit in their work and interactions. This system fosters best practices and skills development. It also gives visibility to any personality/work issues, allowing the organisational member to address them quickly.

Using the approaches outlined above, iterative experimentation becomes a built-in principle. Decision-making is fast and powerfully backed by the knowledge and point of view of all organisational members. This means complete real-time adaptability of strategy and operations is feasible.

No one yet knows whether this "liquid" approach is appropriate for large,

well-established organisations, but the ideas it embodies are certainly worth exploring regardless of an organisation's size or longevity.

CASE STUDY 3

Sequencing a new organisation design

On March 21st 2012 Susan Lamb, chief operating officer at Alder Park, one of the largest and historically most successful not-for-profit organisations in the Eastern Atlantic region, with over 1,600 employees, presented her team's recommendations for a radically different organisational form to the board.

When she joined the organisation a year earlier, its fortunes had suffered a reversal:

- Donation revenues had shrunk by 20%.
- Revenues had declined (from £41.5m to £40m).
- There was to be no new government funding.
- The existing government funding was to be reduced.

Her presentation marked a watershed for Alder Park. With a cash shortfall of over £1m and funding hard to come by, the organisation was facing a difficult future. Lamb was convinced that bold steps were needed, and she was confident that, as a result of her dealings with the board, Alder Park's employees and other stakeholders during the year, her proposals would be accepted.

Lamb had joined an organisation with an admirable track record. For more than 40 years it had provided job training and support, employment opportunities, residential services and recreational activities for people with developmental disabilities at seven sites, steered by its founder and current CEO. But times had changed and Alder Park was not in good shape.

Lamb's first task on joining had been to persuade the board that it was time to revisit Alder Park's vision, mission, values, strategies and goals for the next 5–10 years. Having got their support, she brought in a small management consulting company to advise on the next steps and to work with Alder Park in taking them.

At a three-day offsite session (only 12 weeks after her start date), involving all 17 board members and all Alder Park's managers, the work began. The agenda was to assess Alder Park's current condition, explore future possibilities and draw up an outline plan for change. Out of the three-day session came a new vision and mission (Table 4.1), and a strategy task force made up of board and staff members was set up.

TABLE 4.1 **Alder Park's old and new vision and mission**

Vision old	Vision new
Alder Park will be a recognised leader in providing resources to promote and provide full economic and social empowerment for people with disabilities in integrated environments, increasing vocational, employment, residential and recreational services locally and worldwide.	A world where people with disabilities are fully included.
Mission old	**Mission new**
To effect the best, most far-reaching opportunities for people with disabilities, working with them as individuals with their own talents, abilities, and personal goals.	Empowering people with developmental disabilities to enrich their own lives through our services.

Lamb was adamant about involving the board and the staff from the start. To develop their skills for handling the radical changes that the new vision and mission implied, she endorsed a programme of internal education, development, communication and on-the-job practice in strategic thinking, planning and scenario testing.

FIG 4.7 **Alder Park's new design**
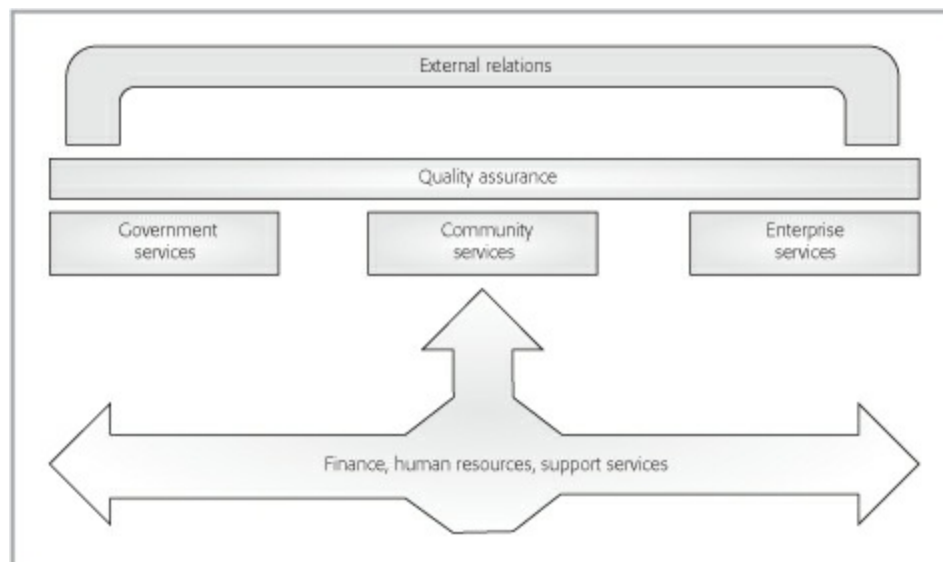
TABLE 4.2 **One of Alder Park's seven goals**

Goal 7 – Finance, Human Resource and Services will deliver best in class results in quality, innovation, and cost.	
By January (two years out), we will implement a management information system (MIS) to provide participant and financial information across all departments and real-time access to current and historical data. The objective is to enhance programme effectiveness and be cost neutral with investments repaid by savings in operating expenses. This MIS will provide all reporting and inquiry capabilities for tracking progress against our five-year goals. By January (one year out), a business plan for accomplishing this goal will be presented to the strategy task force/board with specific details and goals with a timeline for implementation.	
7.1 Implement management information systems that provide programs, business, HR, and financial information across the three service areas with real-time access to historical and current data.	7.1a Identify and address immediate opportunities to improve systems and use of systems.
	7.1b Conduct comprehensive assessment of existing MIS with recommendations for current and future needs (FY1); implement recommendations (FY2).
7.2 Align management to support planned expansion in services and programmes.	7.2a Address short-terms needs to standardise processes and integrate systems.
	7.2b Develop management plan for expected growth in programmes and services.

Six months after the first offsite meeting, the strategy task force presented a report and recommendations on the way forward to Lamb. Driven by the requirements to embrace a customer focus, target efficiencies for improved effectiveness and integrate the service delivery model, the task force presented a design (Figure 4.7) that significantly streamlined Alder Park. It would be effective in facilitating the sharing of information, building and leveraging organisational capability, eliminating silos and reducing operational overlaps, duplication and costs.

Accompanying the model were seven recommended goals developed by small teams, each headed by one of the task force members. One of these goals is shown in Table 4.2.

Lamb was impressed by the detail and the thought that had gone into this piece of work. It built on Alder Park's history and strengths yet took it in new directions. She felt that the range of collaborative, participative and involving organisation design and development techniques, tools and approaches used by the teams had produced a report that would have a good chance of being adopted by all the

stakeholders.

However, she was not yet ready to present the report to the full board for approval. There was still a lot of detailed work that she wanted completed, in particular:

- a proposal on a governance structure that would handle the design and implementation phases;
- a more rigorous stakeholder analysis – she had heard rumblings about the founder, and some of the stakeholder groups;
- an organisation-wide change readiness assessment to give her information on whether work had to be done to bring people on board before starting the implementation phase;
- a comprehensive communications plan related to the findings of the stakeholder analysis and the change readiness assessment (there was already an awareness-raising communication plan being implemented);
- a timeline for implementation with recommended milestones, success factors, measures and quality-assurance processes.

At this point Lamb felt that the consultants had done a good job. They had helped create the vision and the strategic planning process, and they had transferred sufficient skills to Alder Park employees and other stakeholders to enable them to continue with the organisation design themselves. It was therefore time for them to bow out.

The governance structure proposed was simple (basically that shown in the lower half of Figure 4.2), establishing straightforward but robust controls and decision points. The team members were wary of recommending a governance process that was top heavy or time and resource intensive. The project board (or steering group), which had evolved from the strategy task force, comprised six board members with the chairman as sponsor. The project manager was Lamb, to whom eight work stream leaders reported.

The stakeholder analysis highlighted a number of issues. The managers and staff, faced with the reality of implementation and a radical new way of operating Alder Park, met to consider their nervousness and anxiety about change. They realised that they would have to manage the day-to-day business while making the transition to the new design. They would have to commit even more time, effort and resources to put new structures in place than they had in drawing up the plan.

Additionally, the founder was beginning to feel pushed out as he saw the proposed future of Alder Park come into sharp focus. He felt disenfranchised and unappreciated. He began to withdraw his support for the plan and started to lobby those board members closest to him to do the same.

The change readiness assessment suggested that although the new vision and mission were well accepted, the business case for change was not fully

understood. People felt things were fine as they were. It also highlighted the fact that people were not, in general, change ready or capable.

Over the following four months Lamb worked with her teams to set up the governance structure and address the issues raised by the stakeholder analysis and the change readiness assessment. They also worked on the implementation timeline and plans. At monthly intervals they reviewed progress. By the date of the board meeting, all participants in these first two phases of the organisation design process felt confident that they would gain approval to move forward.

Lamb and the work stream leaders emerged from the board meeting with a big smile on their faces. They had unanimous endorsement from members to proceed into the implementation phase. Although they were jubilant that all the work to date had borne fruit, they also understood that the journey through implementation and into embedding the new design would be a substantial challenge. However, it was one that they felt they would collectively and successfully rise to.

Reflections on the case study

In her previous organisation, Lamb had participated in large-scale organisation design work and had learned from this experience. In starting the design work at Alder Park, she knew she had to pay close attention to five aspects of the organisation design process.

1 Leadership support

Without the support of the CEO, the board and Alder Park's senior managers, Lamb would not have been able to carry through the new design. Although new to the role, she had done a significant amount of due diligence before she joined and knew she would have to tread carefully through the minefield of politics in the organisation. She had been appointed by the board, with the CEO's unenthusiastic blessing, so her first tactic was to enlist support for her proposals from board members whom the CEO respected and listened to.

Alongside this, Lamb started a conscious process of developing rapport with her senior management team. She was determined to build from what was working well at Alder Park (an appreciative inquiry approach), as she knew only too well how workforces respond to newly appointed slash-and-burn executives.

Throughout the year it took to get to the point of approval to implement her plan for change, Lamb worked on maintaining and developing commitment. With hindsight (and evidence from the detailed stakeholder analysis she commissioned six months in) Lamb acknowledged that she had

spent too little time working with the CEO and founder, and sought to remedy this in the second phase.

2 Carefully planned phase-in

A year to get to the implementation stage may seem long, but it was time well spent. The stakeholders' education, development and skills had to be built. Alder Park had not seen much change in its 40-year history, and to introduce sudden change would not have been right for its culture. Lamb ran workshops with staff and other stakeholders discussing approaches to strategic planning, the sequencing of an organisation design project, what elements would be involved and how typically the process would play out (see Figures 4.1 and 4.3).

Because her approach was participative, she was able to gauge how things were going. She was sensitive to the needs of most stakeholders, and was able to push them when they needed it and stand back when appropriate.

3 Focus on the details of implementation

Some people found Lamb's insistence on detailed planning tiresome. They wanted to get on and do something and baulked at meetings to go over project plans that had hundreds of lines of sequenced and interdependent actions. However, when the point of implementation came people were aware that Alder Park was going to operate radically differently; they had no illusions that this was going to be old wine in new bottles. They also knew that a range of implementation activities would be going on simultaneously in different work streams and that life would feel chaotic and uncomfortable during the process.

They knew this partly because timelines, critical milestones and decision points were published on the organisation's intranet for staff to react to and comment on; partly because the principle of "no surprises" was one that was embraced by the design teams (for example, they enlisted the support of HR staff and others in having conversations with staff whose roles were going to change); and partly because there was continuous and consistent communication that kept people informed at all stages (see Table 4.1).

4 Working collaboratively to remove silos and instil customer focus

From past work Lamb knew that cross-functional teams (whose members represented all levels at Alder Park) working on specific aspects of the design

would not only get the design work done but also start to develop new, informal social networks that would help break down the silos. During the year, teams were established to conduct specific pieces of work, for example to identify areas of obvious efficiencies and cost savings, and to determine new business opportunities. Teams were encouraged to focus all their suggestions and recommendations on actions that would support the new vision and mission – clearly putting the customers (people with developmental disabilities) at centre stage. This was a big change for many staff, who were of the view that their customers were passive recipients of what was offered to them, rather than individuals who could make their own choices and decisions.

5   Flexibility to make refinements

An aspect that the design teams found difficult to handle was distinguishing "noise" from important information in the operating environment. For example, was the announcement that government funding would be cut extremely significant or of marginal significance? Once they understood how to ask the right questions to point them to an answer, they were able to make adjustments to their recommendations and plans (or in some cases almost start over again).

TABLE 4.3 **Checklist of the steps in the strategic planning process**

Environmental scan	Examine the outside environment surrounding the organisation (societal/task environments)
Environmental forecast	Predict how the environment is changing in order to determine implications for the future of the organisation
Customer/market/competitor analysis	Establish a stronger understanding of why the organisation exists by determining how the market is changing, understanding who the future customers are, and analysing organisation competition
Strategic planning premises	Develop strategic planning premises that reflect the assumptions about the future (based on the environmental forecast)
Internal assessment	Management determines the strengths and weaknesses of the organisation as it currently exists to establish a planning base using a SWOT analysis (strengths, weaknesses, opportunities and threats).

	By maximising strengths and minimising weaknesses an organisation exploits opportunities and avoids threats
Mission/vision development	The mission and vision of the organisation are outlined. The mission is the basic purpose of the organisation. The vision describes what the organisation will look like in the future
Strategic thrusts	The three or four key goals on which the organisation focuses its efforts over the next five years
Plan operationalisation	It is best to follow these steps in this order. However, sometimes it may be necessary to revisit various steps as the organisation moves along through the strategic planning process

Source: Anthony, W.P., Perrewe, P.L. and Kacmar, K.M., *Strategic Human Resource Management*, Harcourt Brace, 1996

As a way of helping the teams manage this constant contextual change, Lamb discussed with them Nadler's Updated Congruence Model (see Table 2.2), demonstrating how operating conditions affected the organisational components and noting that the challenge was to keep the components aligned and in balance in order to deliver the strategy.

With the new understanding that being responsive to changes was an essential part of an organisation design process, the teams began to build flexibility into their plans. For example, they started to present options and to give relative weightings to suggestions and recommendations. This developing openness to adaptability became a valuable organisational capability as the implementation process got under way.

TABLE 4.4 **Role of project board (steering group)**

Overview
• Effective business change programmes and projects require clear, active and visible leadership from the top.
• The project board is responsible for ensuring that the programme meets its overall objectives and delivers the benefits outlined in the business case.
• This should be included in the project board's objectives. The project board has accountability to stop or realign the project if the original benefits case is not likely to be realised.

- The project board should comprise those who have the most interest, and the most to gain from, the successful implementation of the project.

Specific accountabilities of the project board

Gatekeeper	- Ensure only projects that support the business strategy are initiated.
	- Ensure those which no longer support the business strategy, or where the risks of achieving the outcomes and benefits are judged to be too great, are cancelled.
	- Ensure the project has clear terms of reference and business case.
	- Sign off the terms of reference and business case before they are submitted for review.
	- At key milestones (quality gates) through the life of the project, ensure that they are satisfied before the project is put forward for approval to progress to the next stage.
	- Ensure any corporate programme management and project management processes are followed.
	- At the closure of the project, see that the benefits are realised and a post-implementation review is carried out.
Monitor	- Validate the plan.
	- Hold regular reviews of progress against plan at a high level (at an operational level, this is the responsibility of a project manager).
	- Ensure the business case (terms of reference for smaller projects) is reviewed regularly and any proposed changes of scope, cost or timescale are checked against their possible effects on the business case.
	- Ensure risks have been identified, and are being tracked and mitigated as far as possible.
	- Give overall guidance on policy, direction and scope.
	- Approve and monitor projects with an IT element against the project charter.
Support and coach	- Give support to the project manager as required by

	him or her.
	• Support may be in the form of direction, guidance, lobbying for additional resource and resolving serious problems.
Decision-maker	• If decisions are required that are outside the scope of the project, these should be referred to the project board.
Champion/communicator	• Champion the project internally and externally.
	• Hold regular project board meetings.
	• Maintain a senior-level relationship with key external suppliers to ensure they give their full support to the project.
Problem solver	• Resolve the more difficult problems that the project team does not have the skills or experience to resolve.
Resource negotiator	• Ensure that adequate and appropriate resources are available to ensure the delivery of project benefits on time.

A year after the board had given Lamb approval to go ahead with the proposed changes, Alder Park was enjoying the benefits of the new design. Customers were happy, revenue forecasts were on track, staff were motivated and working productively, and after a difficult series of discussions the founder was using his skills to fund-raise rather than lead and manage the enterprise.

Tools for the case study

Of the several tools that were used in this case, two were particularly helpful for staff new to the process of organisation design. The first was a checklist of steps in the strategic planning process (see Table 4.3). This formed the basis for activity in the first three-day workshop, and subsequently at town hall meetings and work stream skills development sessions.

The second tool was a clarification of the role of the project board (see Table 4.4). In this case the project board comprised some of Alder Park's board. For most of them this was their first time working as members of a project steering group. They had a tendency to try to manage the day-to-day running of the project rather than take an oversight role. Initially, this led to

friction between them and the project sponsor (the chair of the board) and the project manager (Lamb).

Summary

The organisation design process is not one that can be prescribed. Rather it is a sequenced process that emerges from information about a specific organisation in its operating context.

The important things to remember are:

- the process is based on a progression of activities that may iterate several times through the project life cycle;
- good organisation designs seek to find the best methods of delivering a business strategy through aligning the various components of the organisation;
- well-designed projects are implemented through a combination of good governance, clear communication and meticulous planning.

5   Measurement

Friend to Groucho Marx: "Life is difficult."
Groucho Marx to friend: "Compared to what?"

MEASUREMENT OF ORGANISATION DESIGN is a thorny topic. At different stages of the process, people want to know with a high degree of certainty the answers to four questions:

- What analysis and assessment need to be done to give a reliable diagnosis of whether or not to initiate a new design?
- Are the design choices being made the right choices? That is, will the design achieve what it is intended to achieve: fix the business issue and at the same time develop the culture and behaviours for continuing success?
- Is the gap closing effectively and smoothly between the original state (old design) and the future state (new design)?
- Are the desired benefits and outcomes being realised in the new design?

People also want to be able to measure what they are losing as well as what they are gaining as the new design comes into play. For example, they may be losing existing organisational knowledge if key people leave. However, they may be gaining new and valuable organisational knowledge as new networks and connections are established.

High levels of certainty may be desired, but because organisations are in a constant state of flux and not in laboratory-controlled conditions, most quantitative organisational measures are no more than "dipsticks" at a point in time. By the time of the next measuring round, for example employee satisfaction surveys, the context has changed and the sets of measures are not directly comparable. Also any outliers in the measures are often removed and

decisions made based on the average. But there is always the possibility that one of the outliers is the "black swan" – the rare event that brings large consequences that cannot be ignored.[1]

The value of measures lies in giving a sense of comfort (albeit perhaps false) and in helping make sense of the situation and determining what to do next. This apparently true story, which took place during military manoeuvres in Switzerland, is instructive:[2]

The young lieutenant of a small Hungarian detachment in the Alps sent a reconnaissance unit into the icy wilderness. It began to snow immediately, snowed for two days, and the unit did not return. The lieutenant suffered, fearing that he had dispatched his own people to death. But on the third day the unit came back. Where had they been? How had they made their way back? Well, they said, we considered ourselves lost and waited for the end. And then one of us found a map in his pocket. That calmed us down. We pitched camp, lasted out the snowstorm, and then with the map we discovered our bearings. And here we are. The lieutenant borrowed this remarkable map and had a good look at it. He discovered to his astonishment that it was a map not of the Alps, but of the Pyrenees.

The map in the story served as a yardstick (measure) to orient the soldiers, but it was acting on the map that got them back. They were able to get a good outcome from a bad map because they had a purpose and an image of where they were, and they knew where they were going. They kept moving, all the while noticing indicators and updating their sense of where they were.

Similarly, using measures as general indicators and sources of feedback to spur action is sensible. But believing that they will point to the right answer to any of the four questions listed above is a mistake.

In almost all situations, if good enough answers to the questions are available, they are sufficient for success. This chapter discusses ways of using measures to achieve organisation design objectives. It does not consider measures from the perspectives of statistics, mathematics, economics or academic research design; rather, it takes a pragmatic and largely practical look at some measurement tools and their applications. So measurement in this context means formalised activity (assessing, monitoring, gauging,

ascertaining, surveying, and so on) aimed at producing structured data. The data are then interpreted and, if appropriate, applied in the process of making judgments, decisions and choices.

Choosing measurement tools

There is a bewildering range of quantitative and qualitative tools available to gather and produce structured data, so a systematic approach must be adopted to decide which ones should be used:

- **Decide the purpose of the measurement.** In most cases, measurement of an organisation design has two purposes:

    - to measure an organisation design's impact on achieving the business objectives – this can be an existing design or progress of a new design;

    - to monitor the programme or project management aspects of designing, implementing, and embedding a new organisation design.

    These are high-level purposes and because each organisation design is unique, the measurement activity must be selected for that particular design.

- **Choose the measurement method.** There are three types: quantitative (numbers), qualitative (words and observation), or mixed (numbers, words, and observation). Again, the choice depends on the individual design as each type has advantages and disadvantages, and none is perfect.

- **Get a suitable tool or tools for the job.** Some tools will be better than others for particular jobs. For example, a knife blade may loosen a screw, but the right sized screwdriver will work better. Similarly, among the myriad ways – from personal interviews and focus groups to different types of questionnaire – to unlock the real views of customers, some will work better than others according to what you are investigating, scale, demographics, and so on.

- **Agree how the tool or tools will be applied.** Almost any tool, quantitative or qualitative, can be applied in a number of ways. For example, the choice of a quantitative survey raises a number of

questions: Should it be paper-based or web-based? Should it be administered to a sample of the population (what type/size of sample) or to the whole population? Should it be at one time point or several time points, or a continuous real-time data collection?

- **Prepare the ground for success.** In applying a tool there can be unexpected consequences, as the context is usually complex. For example, deciding to do a skills-level analysis could result in labour union intervention if it was felt that the results would be used to select individuals to lay off. To manage the risk of things going wrong:
  - test the instrument or method chosen;
  - prioritise the objectives of the measurement (often the list is too long) reducing it to a chosen few (no more than five);
  - think where uncertainty will come from and use schemes to reduce it, for example focusing on a sub-population rather than the whole target population;
  - agree the protocol for the collection of measures (if the collection is by interview, for example, train all interviewers to use the same approaches and questions).

Decide the purpose of the measurement

As stated earlier, the first purpose of measurement is to gauge the impact of the organisation design on the achievement of business objectives. So going back a step, the purpose of any organisation design is to make the enterprise high performing – that is it must satisfy its customers profitably and sustain its competitive advantage.

Much has been written about high-performance organisations and the practices they have in common that appear to keep them leading their sectors. Although there are minor variations, there is remarkable commonality across industries and countries. In the US and Europe, awards are offered to organisations that demonstrate high performance against specific criteria. The categories that are measured are shown in Table 5.1.

TABLE 5.1 **European Foundation for Quality Management and Baldrige Award compared**

European Foundation for Quality	The Baldrige Award (US)

Management (EU)

1	Adding value for customers. Excellent organisations consistently add value for customers by understanding, anticipating and fulfilling needs, expectations and opportunities.	1	Leadership. How upper management leads the organisation, and how the organisation leads within the community.
2	Creating a sustainable future. Excellent organisations have a positive impact on the world around them by enhancing their performance whilst simultaneously advancing the economic, environmental and social conditions within the communities they touch.	2	Strategic planning. How the organisation establishes and plans to implement strategic directions.
3	Developing organisational capability. Excellent organisations enhance their capabilities by effectively managing change within and beyond the organisational boundaries.	3	Customer and market focus. How the organisation builds and maintains strong, lasting relationships with customers.
4	Harnessing creativity and innovation. Excellent organisations generate increased value and levels of performance through continual improvement and systematic innovation by harnessing the creativity of their stakeholders.	4	Measurement, analysis and knowledge management. How the organisation uses data to support key processes and manage performance.
5	Leading with vision, inspiration and integrity. Excellent organisations have leaders who shape the future and make it happen, acting as role models for its values and ethics.	5	Human resource focus. How the organisation empowers and involves its workforce.
6	Managing with agility. Excellent organisations are widely recognised for their ability to identify and respond effectively and efficiently to opportunities and threats.	6	Process management. How the organisation designs, manages and improves key processes.
7	Succeeding through the talent of people. Excellent organisations value their people and create a culture of empowerment for the achievement of	7	Business/organisational performance results. How the organisation performs in terms of customer satisfaction, finances,

both organisational and personal goals.	human resources, supplier and partner performance, operations, governance and social responsibility, and how the organisation compares to its competitors.
8 Sustaining outstanding results. Excellent organisations achieve sustained outstanding results that meet both the short and long term needs of all their stakeholders, within the context of their operating environment.	

Sources: European Foundation for Quality Management, *Fundamental Concepts* (www.efqm.org); Malcolm Baldrige National Quality Award (www.asq.org)

Thus the early organisation design challenge – met in the assess phase – is determining what future high performance looks like in terms of carrying out the business strategy, deciding which of the characteristics of high performance is most likely to deliver it (or is currently doing so), and then agreeing what to measure and how to measure it. Of course, for these activities to produce useful results there must be expressed clarity on the business strategy (see Chapter 2).

Google's workforce analytics

Google is well aware of the first purpose of measurement: to measure an organisation design's impact on achieving the business objectives. In Google's case, this means being able to earn money through advertising, to entice new customers through inventive products and services, to expand services and products to existing customers, and to experiment in order to identify and try out new products and services. To achieve this one aspect, Google has to pay close attention to the performance of its workforce. As shown in Table 5.1, both the European Foundation for Quality Management (EFQM) and the Baldrige Award measure workforce performance as a contributor to high organisational performance.

Google is well known for the way in which it captures and interprets workforce data, and then uses it to highlight where the company can change things or do different/new things to attract and retain a motivated, high-performing workforce that will deliver the business strategy.

One example illustrates this. The HR analytics team noticed that many of their female staff left the organisation. Data analysis showed that it was not women in general who left, but specifically women who had recently given birth, and they were leaving at twice the rate of other employees. The outcome of this finding was a change in maternity leave policy. Google increased maternity leave from three months to five months and changed the pay policy, giving women on maternity leave full pay. As a result, the number of women leaving after giving birth decreased by 50%.[3]

Collecting data and investing in interpreting it and acting on findings is fundamental to Google's business success:[4]

> *Google's HR department functions more like a rigorous science lab than the pesky hall monitor most of us picture when we think of HR. At the heart of POPS [short for People Operations, Google's HR department] is a sophisticated employee-data-tracking program, an effort to gain empirical certainty about every aspect of Google's workers' lives – not just the right level of pay and benefits but also such trivial-sounding details as the optimal size and shape of the cafeteria tables and the length of the lunch lines.*
>
> *In the last couple of years, Google has even hired social scientists to study the organization. The scientists – part of a group known as the PiLab, short for People & Innovation Lab – run dozens of experiments on employees in an effort to answer questions about the best way to manage a large firm. How often should you remind people to contribute to their 401(k) s, and what tone should you use? Do successful middle managers have certain skills in common – and can you teach those skills to unsuccessful managers? Or, for that matter, do managers even matter – can you organize a company without them? And say you want to give someone a raise – how should you do it in a way that maximizes his happiness? Should you give him a cash bonus? Stock? A raise? More time off?*

TABLE 5.2 **Documents for measuring progress on programmes and projects**

Document title	What the document is used for
Benefit Profile	To define each benefit and track its delivery and realisation
Benefit Realisation Plan	To track delivery of benefits across the programme
Benefits Management Strategy	To define and set up the approach to managing benefits
Communications Plan	To plan and monitor the communication activities during the programme

Highlight Report or Status Report/Progress Report	To summarise project progress and highlight areas requiring management intervention
Issues Log	To capture and actively manage programme issues
Lessons Learned Report	To disseminate useful lessons for future projects and programmes
Programme Brief	To initiate the programme and provide the basis for the programme's business case
Programme Business Case	To approve investment and assess the ongoing viability of the programme
Programme Plan	To design the overall programme and then monitor and control progress
Project Initiation Document (PID)	The basis for management and control of the project
Quality Management Strategy	To define and set up the necessary activities for managing quality across the programme
Risk Log	To capture and actively manage the programme risks
Risk Management Strategy	To define and set up the required activities and responsibilities for managing risks
Stakeholder Management Strategy and Plan	To define, implement and track the activities and responsibilities for managing stakeholders

Source: Adapted from Managing Successful Programmes (www.msp-officialsite.com)

This example illustrates two points: first, that measures of design are organisation specific; and second that there has to be a clear purpose, related to the business strategy, for the measurement.

The second purpose of measurement in an organisation design project (or programme) is to monitor project progress against agreed criteria – for example, to determine whether or not the project is running to time and within budget, whether stakeholders are adequately engaged and whether the communications are having the intended effect.

Projects or programmes set up conforming to Association for Project Management (www.apm.org.uk) or Project Management Institute (www.pmi.org) guidelines have specific frameworks and templates on project measurement. Table 5.2 provides an overview of a typical set of measurement documents for a project.

Choose the measurement method

Given the two purposes of measuring an organisation design project (gauging the impact of the design on organisation performance and monitoring project progress), the choice of measurement method (quantitative, qualitative, or mixed) is governed by the following four factors:

- What is to be measured.
- The audience/market for the findings.
- The resources of the investigator (or investigation team), such as experience, cost, time available.
- The availability and quality of the data (validity, currency, reliability, type, amount, ability to structure it).

The first factor in measurement choice, knowing what to measure, involves identifying specific data that will give meaningful information in relation to the two measurement purposes. In the retail example (see Table 5.3), the indications were that sales through retail shops were decreasing and online sales were increasing. The organisation design had to change to meet new customer demands and deliver sufficient sales revenue through the new channel. A project was initiated to implement a new design.

The organisation chose to analyse quantitative measures in situations that were regular, precise, countable, objective and comparable within each data item: for example, the number of sales made each month and the number of phone calls taken per hour. Qualitative measures were chosen in situations involving behaviour that was situational, dynamic, uncountable and subjective and had a range of perspectives: for example, the feelings of staff about closure and progress with labour union consultations. Mixed methods were chosen in situations that were amenable to both quantitative and qualitative data collection and where results from one method supported results from the other: for example, customer satisfaction, measured by comparing the number of sales made in each channel and by interviewing customers about their purchase choices.

TABLE 5.3 **Retail company redesign of sales channels**

Press release	**Measurement example**	**Choice of method**

	(to aid decisions)	
The company is to restructure parts of its UK direct sales operations in response to changing customer behaviour and increased sales on its website.	Channel sales (for comparison purposes) Customer satisfaction	Quantitative Quantitative or mixed
The restructure will involve the proposed closure over the next 18 months of half of its high-street stores. There will be an expansion of the contact centre and the addition of one distribution facility.	Project progress against plan (is restructuring and closure running to time, within budget, with good business continuity?)	Mixed (using project tracking documentation)
The proposed changes will affect around 150 staff who work in the 17 high-street shops and their back-office support areas. A further 100 staff currently work in the Belfast call centre.	Feelings of staff about closures Labour-market analysis of proposed location for distribution facility	Qualitative Quantitative
The company will consult with its trade unions about the proposed high-street store closures.	Progress of consultation with unions Effectiveness of communications and involvement plan	Qualitative Mixed
The sales director, said: "It is clear that increasing numbers of customers want to comparison shop and buy online. This is an industry-wide trend in retail and we have to ensure that our business reflects this."	Customer satisfaction Retail industry trends	Quantitative or mixed Quantitative
"Our UK contact centres have seen the number of telephone calls and chat	Call volume, chat-line volume, call content, online traffic	Quantitative Quantitative

lines rise by more than 12% year on year for the past four years. We have kept pace with this by investing in technology and multiskilling staff. We now need to expand this channel."	Productivity

The second factor in deciding which measurement method to use is the audience or market for the results: are they more interested in hard quantitative data or softer qualitative feedback. When choosing a measurement method it is important to think about how the data might best match the needs of its target audience.

Once a method is established, the format for data presentation must be determined. Technology tools offer extensive choice. Qualitative information can be presented as part of an infographic, as a word cloud in narrative form, often with contextual information and quotes from people, as an accompaniment to visuals and video, and so on. Quantitative information can be presented using graphic visualisations and video, or traditional-style table, bar, line and pie charts. The technologies now available make it much easier to present large amounts of data in imaginative visual ways that help reveal patterns, themes and ideas that are less accessible through traditional means.

As David McCandless, an author, data journalist and information designer, said in a TED talk:[5]

By visualising information, we turn it into a landscape that you can explore with your eyes, a sort of information map. And when you're lost in information, an information map is kind of useful.

Note that the styles of information presentation – use of colour, shading, highlighting, tone, supporting graphics/illustrations, numbers or words, and so on – have an impact on the way the audience perceive and interpret the data. Always take into account both the nature of the information and the audience – a cartoon or elaborate whizz-bang graphics may be appropriate in some circumstances, but not in others.

Many organisations measure project progress and/or business performance against plan in a "dashboard", which is regularly updated. These

offer a visual and comparative month-by-month synopsis with specifics of interest or concern being "called out", usually by the project manager, and discussed during the project update. Google Images has numerous examples of measurement dashboards.

The presentation of data is not something to be taken lightly. For provocative views on the hazards of presentation and how to avoid them, see the work of Edward Tufte, a writer on and teacher of analytical design (www.edwardtufte.com).

Tufte suggests that visual data should be:[6]

- content rich, design straightforward;
- intense;
- subtle and effective with colour;
- rich in typographic information;
- luscious with multiple layers of micro/macro information, a typographic layer + a symbol layer + a data-map layer;
- calm but clear scale bar always present;
- free of chart junk and optical clutter;
- accommodating a diversity of users.

The third factor that helps determine the choice of method is the resources available for measurement. Briefly, time, cost and expertise are instrumental in shaping measurement choices, and generally there is a trade-off between these:

- **Time** is involved at all stages of the measurement process: selecting or designing the tool, testing it, running the full measurement process, analysing the results and preparing a presentation. Clearly, using an off-the-shelf online quantitative instrument – for example SurveyMonkey – that produces immediate reports brings a quicker result than designing a qualitative process that might require designing a participative event or focus groups, analysing narrative and developing a report. Quantitative methods of measurement are usually quicker and easier to administer than qualitative ones, but it is important to be aware of what some organisations term "survey fatigue", which occurs when people have been asked too many times

for their input. Qualitative measures involving focus groups, workshops or interviews take longer to set up (as they involve people and schedules) and analyse. They can be labour intensive, but they are useful for digging deeper into an issue.

- **Cost** comes into play when making build-or-buy decisions. Balance the cost of buying a licence to use a survey tool against a price per user with the cost of labour and expertise to design and administer an in-house process. It may be possible to piggyback on existing organisational measures, such as balanced business scorecards, and thus negate the need for additional measures related to the success of the design in meeting business objectives. However, tracking progress of the design project against plan will probably need specific measures.

- **Expertise** is critical when it comes to designing measures. Asking a few questions may appear to be an easy task, but getting valid, reliable, comparable, valuable, high-quality information is not easy. All sorts of design decisions have to be made: for example, on quantitative versus qualitative methods, survey questions, ratings scales, sample or whole population. When making trade-offs between time, cost and expertise it is better to compromise on the time and cost. Measurement design expertise is essential in order to avoid junk information.

The fourth factor in measurement choice is the availability and quality of data. Paradoxically, most organisations have access to a lot more data than they can manage and assess. Tom Davenport highlights five issues:[7]

- Although it is now possible to analyse text, voice and video data, much of it is unstructured. It takes time and effort to work out how to structure it and then to get it into a format where it can be analysed.

- Once it is structured, it's not easy to analyse. The meaning behind the words of people's comments on social media or in blogs or customer reviews is open to interpretation – voice tone and emotion are not discernible in tweets, for example.

- The sheer speed of the flow of data is now like a river, fast moving and big, that just keeps on coming. This brings up a real management

challenge: we simply don't have the continuous decision-making methods that can make effective use of the continuous data stream we have at our disposal. So we need to shift our approaches to both how we monitor data and how we use it in decision-making.

- The technology allows organisations to monitor the data as it comes in, and they say, "Oh, look – [customer] opinion is up, it's down, it's up, it's down." But they don't really know what to do with the results. Additionally, there is little skill in developing any criteria for deciding when and how to take action.

- Data move and change so quickly that in order to make decisions, thousands of new models a week would have to be created. Organisations do not have this capability, which results in lack of knowledge of why one marketing effort, for instance, might succeed more than another.

The lesson is to recognise that too much data can be of as little use as too little data, and learning to be judicious in choosing and using the data source is essential.

Get a suitable tool or tools for the job

Constraints imposed by both resource availability and intended audience may narrow measurement choices, but not by much. Expertise is required to help determine what to measure and why it is being measured – that is, what information the measure yields that contributes to one of the two purposes of measuring an organisation design and design project. In the retail company's decision to change its focus from "brick" sales to "click" sales (see Table 5.3), one of the elements being measured was customer satisfaction information. Measurement showed decreasing levels of satisfaction with retail shop purchases and an increasing desire for better online purchase availability. Designing an organisation to respond to this meant, among other things, bringing better co-ordination between business units, more sharing of customer data and improved internal flexibility.

Table 5.4 shows that in this instance there are potentially valid measurement points which will indicate whether the new design is developing customer satisfaction in at least four areas: customer service, business process, human capital and financial. If all were measured, there

would be nine sets of data – and this is for only one aspect of the design. Additionally, all nine points could be measured quantitatively and qualitatively either as sole methods or as a mixed method.

TABLE 5.4 **Improve levels of customer satisfaction**

Design aims	Example measures (mixed method)	Customer services	Business process	Human capital	Financial
Better integration and co-ordination across business units (service centres, sales, IT, finance, HR)	Communication and interaction patterns		X	X	
	Customer satisfaction	X			
More sharing of customer knowledge and insights	Transfer of information between business units (network analysis, stories)	X	X		
	Customer satisfaction surveys	X			
Improved internal flexibility to respond to changes in buying patterns and trends	Adaptability of organisational elements (change readiness assessments, leadership behaviour observation)	X	X	X

Source: Heerwagen, J., Kampschroer, K., Powell, K., and Kelly, K., "Designing for Organizational Effectiveness", *Whole Building Design Guide*, July 23rd 2012 (www.wbdg.org)

Clearly, measuring all of these would be resource intensive, so the challenge is to get the most valid and usable information from the minimum amount of measurement, in order to get actionable information rather than noise. This challenge can be met in three ways.

Narrow the field

Identify one or two measures that will provide good enough information to trigger action or provide information in a number of areas: a couple of measures that act as surrogates for a much greater number of measures. For example, one car rental company tracks only one measure:

Every month, we measure customer satisfaction with each local branch through telephone surveys of hundreds of thousands of our customers. Each branch earns a ranking based on the percentage of its customers

who say they were completely satisfied.

Agree criteria and boundaries for choice
In the first instance this means identifying tools that:

- lie within resource boundaries (time, cost, expertise);
- measure the narrowed field that will inform the wider action;
- recognise the audience/market;
- adhere to the KISS principle (keep it simple stupid).

Short online surveys meet these criteria. They are quick to complete and automatically generates reports. They measure a narrow field through a small number of questions, but the answers generate information that can trigger action.

Decide on the measurement tool source
There are three choices: use or buy off the shelf; customise an existing one; design for a specific situation. Generally, a tool bought or used off the shelf is more likely to be valid, reliable, current and generalisable (that is, the sample results can be universally applied or extended to the population from which the sample was taken – though this should be checked because, for example, a tool for a US audience may not work for a UK one). Customisation takes time, is often expensive and there is the possibility of losing the rigour of the results. Designing for a specific situation is also costly and brings added risks if people inexpert in measurement design are charged with developing the instrument.

An ideal scenario is one where an organisation designer partners with a measurement expert, possibly from an external independent organisation, to scan the market for suitable off the shelf tools. If an off-the-shelf tool is not available, the next best option is customisation; and the last recourse is developing a measurement tool from scratch. The American Society for Quality (www.asq.org) and the UK's Institute for Quality Assurance (www.iqa.org) are good sources of advice and information on measurement issues.

Agree how the tool or tools will be applied

What to measure, why to measure it and the audience for it inform the choice of tool. Thinking about how to apply the tools is also part of the choice process. In either qualitative or quantitative data gathering there are two possibilities: census data gathering and sample data gathering.

Census data gathering draws information from every individual entity. So, for example, in the case of an employee satisfaction survey every employee would be asked to respond. Or in the case of financial reporting every department or business unit would be asked to supply information (usually automatically generated by financial software).

Sample data gathering draws information from a smaller group of the targeted population in a way that represents as closely as possible the whole population. Airlines, for example, on every flight ask a small percentage of all passengers to complete customer-satisfaction surveys. The sample is identified by using a randomised selection of seat numbers. (This method is known as probability sampling where the selection of the units, in this case passengers, is left to chance to minimise bias in the study.)

Sample size depends on the level of certainty required from the data. The bigger the sample size the more likelihood there is of certainty and the less of error. (Assuming the measurement tool design is good.)

However, in identifying the right sample even a randomised method is not necessarily perfect. A vivid example is given in Jenny Diski's novel *Rainforest,* where the protagonist is a researcher studying the ecology of the forest using a sampling method. One of the other characters comments:

> *There's one thing that occurred to me though, about your grids and your search for the ultimate truth about rainforests. Supposing they're in the wrong places, your squares? Supposing they're in the one place that doesn't give you a representative sample of the whole forest? Supposing,"* he concluded with a sudden laugh as the thought came to him, *"the truth you're searching for is between your squares, or concealed by the lines that make the framework of the grid? All those bits of paper would be meaningless, wouldn't they?*

Prepare the ground for success

To get good results from measurement processes, first make sure that the use of the measurement tool will not cause problems and then maximise the

response rate.

Use and implementation issues can be avoided by investing in a pilot of the full-scale study. Piloting may be seen as adding time and cost, but it mitigates the risk of things going wrong in the future and is well worth the investment. The example below, which comes from an internal audit of a fourth annual employee opinion survey run by a retail company, highlights an issue that could have been spotted and worked out before a full roll-out.

The issues highlighted are to do with the mechanics of designing and implementing the survey; time spent piloting the survey would have helped address the issues of the product failing to meet organisational requirements and inadequacies of management control in the process.

Even where measurement tools are bought or used off the shelf, it is worth piloting the process. Piloting highlights the good and the bad not only of the use but also of the design of the measurement tool, saves money and time in the long run, and helps achieve higher-quality survey results.

Maximising the response rate is not an issue when the information is generated automatically, for example on number of units sold. But where the measurement involves people participating in a workshop or focus group, or completing a survey, participation can be problematic. A low response rate affects the accuracy of the results. It may be, for example, that people who do not provide information differ systematically from people who do provide information.

Survey review

The Employee Opinion Survey (EOS) is not being used effectively to address employee concerns.

Some 88% of staff completed this fourth survey and HR management believes that it is a valuable tool to measure employee attitudes; however, there are weaknesses throughout the survey process:

- The EOS is not fully meeting organisational requirements. A significant number of staff interviewed found questions irrelevant and did not fully understand the results.
- Improvements to management control have been identified to improve the efficiency and effectiveness of the survey process.
- The EOS has not been sufficiently embedded into the organisation design. Line management is not communicating results or action plans to staff and

action is not consistently taken to address low survey scores.

Preparing the ground for success involves supporting people in taking actions suggested by the findings of the measurement. Word quickly gets around if nothing happens as a result of a survey, and when this occurs it is difficult to get support and participation in further data gathering.

Part of preparing the ground for success includes thinking about follow-up. This frequently falls by the wayside when other organisational events overtake the organisation design work or the costs of taking action outweigh the benefits.

Measurement principles

As highlighted above, effective measurement is not as precise an art as people might like to believe. There are no right measures. For any given organisation, measures of organisation design success and programme progress vary, depending on its mission, its environmental context, the nature of its work, the product or service it produces and customer demands. However, there are two principles that must always underpin any form of measurement: respect for people and respect for quality of output.

Respect for people

This involves the principle of getting informed consent, which means that participants have voluntarily agreed to give the information, understand what they are agreeing to, and have been informed of the purposes of the request for information, why it is being sought and how it will be used. Applying the principle means communicating effectively with participants (as discussed in the previous section), maintaining confidentiality throughout the measurement process and securing measurement data.

Maintaining confidentiality is crucial to measurement activity. Response rates are lower when people feel their views may be exposed. It is important to take active steps, regardless of whether the measure is quantitative or qualitative, to ensure participants are clear that the information they provide is kept both confidential and secure. This is more easily done with print, web-based or computer-generated quantitative information, when forms can be printed with information about the purposes of the survey together with a

statement that responses are anonymous and/or confidential. Participants then tick a box agreeing that they have read and understood the purposes of the survey and agree to information being used on the terms stated.

In workshops and focus groups where qualitative information is sought, maintaining confidentiality either becomes part of the participants' contract with each other, or can be structured using web-based groupware that allow people to record views anonymously. Where technology is unavailable and confidentiality may be an issue, the Chatham House Rule can be invoked.

The Chatham House Rule

When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

The world-famous Chatham House Rule may be invoked at meetings to encourage openness and the sharing of information. The value of this rule is that it allows people to speak as individuals, and to express views that may not be those of their organisations, and therefore it encourages free discussion. People usually feel more relaxed if they don't have to worry about their reputation or the implications if they are publicly quoted.

Chatham House can take disciplinary action against a member who breaks the rule. Not all organisations that use the rule have sanctions. The rule then depends for its success on being seen as morally binding.

Source: www.chathamhouse.org.uk

Reassure participants that where quotes or attributions are made in any reports, names will not be mentioned without gaining the express permission of the participant. When using video cameras, webcams and/or taking photographs to collect data, there is a risk that participants' identities may be revealed and that their privacy may be affected in unanticipated ways. Inform participants if you intend to show videos or use photos in seminars and/or conference presentations. To maintain confidentiality of data, secure it carefully allowing access only to authorised personnel.

Respect for quality of output

This means taking the steps outlined in this chapter to ensure that the data gained are valid, reliable and current and reflect conditions accurately. It also means ethical, careful and objective reporting of the findings. Threats to objective reporting come from several directions and can be related to self-interest, self-review, advocacy, familiarity or trust and intimidation.

Unfortunately, the quality of output is often determined retrospectively through reviews or investigations. When measurement is found to be of low quality, fabricated, misleading, or misreported (either internally or externally) there is usually deep damage done to the reputation of the responsible party.

Robust measurement reporting requires a mindset of scepticism, detachment and neutrality. With these qualities there is less likelihood of stating, conveying, suggesting, or omitting results in order to present a rosy view.

CASE STUDY 4

Measuring a turnaround

Four months into the project Matthew Davies was anxious. He had been charged with turning round a whole new division in the company and things were not looking good at this stage.

The turnaround project had been glossy and well publicised internally. Zed, as it was codenamed, was to be a bold and innovative venture in the notoriously difficult children's wear market. Its vision was "to be a clothing company where heroes are made and fantasies come true", and its mission was "to put clear blue water between Zed children's wear and the competition and become the best children's wear retailer in the world".

From the start, there were rumblings in the parent company about the vision. People did not seem to understand the heroes and fantasies language even though Davies explained it:

> *We believe the experience we need to offer is analogous with the cinema experience. We're developing a sense of anticipation in the kids – much as film trailers do. We want them to feel that the shopping experience is going to be fun and exciting, that they're seeing a "great film" with product stories that are relevant and motivating so that when they leave the shop they'll have a sense of fulfilment or reward.*

He presented the vision with passion and vigour:

Think of your own kids – wouldn't they want to live out their fantasies or meet their heroes? Our plan is to drive kids' footfall into the stores, through our promotions tied to spend thresholds. The younger kids will live their fantasies say by visiting theme parks such as Disneyland or Madame Tussauds, and the older ones will meet their heroes by, for example, winning a place at Manchester United's Summer Soccer School.

Along with the vision and mission, Davies's team developed three performance goals for the first year of the project. The first was hard and measurable, and no one could disagree with the notion of supplying better-targeted (more fashionable) products, delivered faster and more cheaply to market. The second was more qualitative, and Davies's team had a harder job presenting it to a sometimes sceptical audience:

Imagine that, through improvements to the store environment, we make the shopping experience attractive to adults and children alike. We're planning to design a place where children WANT to shop – one that's cool and aspirational – using a theatrical approach. We'll communicate [what the] key themes [are] to be each month, and have linked event zones, new ranges and collections in store, promotions and advertising, news and information.

The third goal was also qualitative and as Davies admitted to himself, perhaps the hardest to achieve: he was to turn around children's wear but with staff who had been with the company for years and who had strong views on the way things should be. New to the organisation himself, he strongly believed that the only way he would get things on track was by establishing a culture of ownership and accountability among colleagues. In his meetings with them he repeated the point that: "I want you all to be individually responsive, to take measured risks and be capable of swift delivery of our goals."

Davies's team chose four measures for the three goals:

- Restoration of clear market leadership for children's wear with a target of 7.5% market share (current 6.2%) by the end of the second year and the achievement of revenue objectives.
- Zed having "what kid's want" up from 14% to 35% by the end of the second year.
- A supply chain capable of delivery from concept to store in 12 weeks.
- A culture change tracked by an organisational culture inventory administered at regular intervals.

But even with these measures Davies couldn't get the organisational support he wanted, as he reported to his team:

We've got the green light on some aspects of the stores revamp – mainly small-scale stuff, but we can't go forward on making things "child friendly" in the way we wanted – there are funding problems so that's been put on hold for a year. Also I've just had word that our advertising is delayed until we have proved that our business model works (ie, next spring all being well – it's imperative that we get the model to deliver!) – we've been held to ransom on the serious slip in sales in the previous two months that we've had largely because we took our eye off keeping the business running in favour of the organisation design work. We must recover our sales.

Staff were demoralised by the spring delivery being off by £6m ($9m) and the resignation of a senior member of the team as a result. Davies, working flat out himself, acknowledged that overall his people's workload and stress were high and resources were stretched. That weekend he talked to his friend, Andrew Collet:

Here's the story. As you know I was hired to turn around the failing children's wear division of the clothing retailer. Those who hired me were clear that they wanted a new, innovative and competitive business model to regain lost ground. I think I've got that but I'm now facing the requirement to produce results long before it's possible to do so. I've got to keep the business running – not as usual, but better than that – and simultaneously the transition into the new model. The measures that I've got don't seem to be giving me the right information to make changes to the plan, and I seem to have an impossible number of priorities to juggle.

Communication isn't working – not just with our suppliers, but among ourselves, there's no teamwork and we don't seem to trust each other. Then there's the relationship, or lack of it, that we've got with the supplier – communication and trust are rock-bottom there too, and look at the size of the mountain ahead.

Davies listed the priorities he saw in the immediate three months, grouping them by functional team:

Look, IT, HR, finance, marketing, selling, category, design, commercial and technical and transition all have at least four and some have five priorities to work on – it's just crazy!

Collet, recognising the edge of panic, responded:

Matthew, step back and take a calm look – having 38 priorities, and you haven't mentioned tackling culture and communication issues across the whole division, is simply not doable. You're not one of the heroes in Zed's vision. You're a hard-pressed executive trying to do the right thing under

pressure.

Further discussion made it clear that if Zed were to get back on track, a totally different approach would be needed for Davies to demonstrate his turnaround capability to the parent organisation in the given timescale. "You're right," said Davies, pulling himself together, "I'm remembering that I know a couple of people who've faced similar situations. Maybe I could learn from their experiences". On Monday morning, with Collet's encouragement, he picked up the phone and made some calls.

It was a surprise to Davies that one of the most thought-provoking conversations he had was with Nigel Trant, a bond trader and mathematician whom someone had suggested he call. Trant said:

Take a close look at the measures you're using to track progress. Most traditional measures view organisations as predictable mechanisms. They look at issues one-by-one – just as you've outlined each of your functional areas having four or five priorities. Not only that, they often measure short-term which leads to short-sighted decisions. In your case you're in an unpredictable situation. The problems are complex and contingent but your measurement approach is gravitating to the more obvious parts of the challenge and steering clear of the rest. Try taking a whole organisation view and measuring only a few aspects, common to all, but that will enable concerted action across the piece.

Davies pondered this and then remembered the five enablers of organisation design success: leadership support, stakeholder engagement, change readiness, communication and training (see Chapter 4). It dawned on him that the common theme was lack of stakeholder engagement. The parent organisation's leaders said they were supportive but acted differently; his own staff and staff at the supplier organisations lacked motivation and energy; and customers were voting with their feet.

At the next meeting with his team Davies outlined his thoughts:

Things aren't going as well as we expected and hoped at this stage. I'm wondering if we're focusing energy on the wrong things. Let's discuss the possibility of tracking stakeholder engagement and taking collaborative and aligned actions to develop and sustain this. I think that doing so would significantly reduce the number of priorities we've got on the table and at the same time direct our actions towards more efficiently achieving our business strategy. I don't want to change the goals but I do want to change the way we're approaching them.

There was a pause as people took in this new idea. Then the finance officer

spoke:

I don't know if this will work, but there's a Stakeholder Engagement Standard[8] – it may not exactly match our needs but I think we could adapt the approach. It's comprehensive with tools and templates, and the standard is recognised in the marketplace.[9]

Four months later, with the entire team focused on the strategic objective of engaging stakeholders in mustering behind helping Zed achieve its three performance goals, there had been a significant shift in Zed's fortunes. By focusing on one question – How engaged are our stakeholders? – asked weekly, closely measuring the results, ensuring appropriate action, and communicating clearly and frequently with stakeholders, Davies had built trust in his capability to take the division to success. This led to relationships all round improving, motivation and productivity increasing, and, not coincidentally, business results changing for the better.

By the end of the year, Davies and his team felt confident they were on track and had won support not only from the staff but also from the customers. As Davies reported to Collet:

It's been a tough period and one that began badly. I'm glad to say that things are looking good – it had never dawned on me that choice of measure could have such a dramatic knock on effect on outcomes. Take a look at this.

Davies pushed the current issue of a trade newspaper across the table to Collet:

A great report, don't you think? "Zed is showing signs of regaining share in the children's wear market and has made good progress in a difficult environment. It still has much to do to ensure sustained growth in the long term but the new design of the division along with better value, better buying, and better styling resulted in better performance as the year progressed, the company said."

Reflections on the case study

This case highlights the complex relationship between business goals and performance measures. Davies had business goals and started off by measuring each of these both directly and discretely. This had the effect of fragmenting effort and alienating stakeholders. Realising this he started to do several things right:

- He took the brave step of looking for a different approach and seeking support to do this. Some leaders find it difficult to admit to themselves, let alone others, that they are in a quandary or in over their heads. However, leaders who at stressful times are able to admit fallibility and find support and guidance to help rethink their approach are more likely to be winners than losers (for more on this see Chapter 7). People coming new to an organisation at a senior level often have a tendency either to try to drive performance or to build social networks of influence. Davies was more inclined to do the former, but he realised before it was too late that to succeed he also had to do the latter. In his mind he had been focused on getting on rather than fitting in. The nature of the company required him to do both if he was to be effective and successful.

- He looked for a measure that was important and durable (rather than something easy to measure). The Gallup Organisation has found similar strength in fewer focused measures, making a powerful case for gaining employee engagement by asking 12 questions using the Gallup Q12 survey. Careful choice of a few overarching measures that lead to action towards the goals is a better route than direct measurement of the gap between current state and end-goal state. It also changes the focus from firefighting on priorities to concentrating on adjusting as the context changes (moving from addressing urgent items to addressing important ones). As Davies learned, the measures chosen must also be adaptable to changing circumstances; in his case the reduction in funding meant a change of plans related to store layout. His first measure on this – Are we on track for delivering new store layouts? – did not stay the course. His new measure – How well are we engaging stakeholders in our store layout plans? – was adaptable as circumstances changed.

- He involved his team in the development of a common measurement process. Recognising that his management team were focused on their individual priorities and thus fighting with each other for all types of resources, Davies used the approach of involving them in his thinking. This led to a more collegiate and then productive approach to achieving the goals. With a common measure rather than individual priorities, team members started to align their functional and operational decisions, sharing ideas and insights as they went along.

Parallel with this they started to use the collaborative approach with their own teams. The result was that the mindset of all staff gradually changed from one of working at Zed to one of working for Zed.

- He monitored consistently and regularly, thus inculcating a culture of measurement throughout. In the weekly meeting, Davies and his team reviewed the latest responses to the question: How engaged are our stakeholders? Data were gathered through several means (focus groups, one-to-one meetings, a sample survey, and so on) but in a systematic way, so that the team was seeing an evolving but reliable picture each week. The approach was carefully implemented to avoid over-surveying the same stakeholders and to keep response rates high. As people saw the effectiveness of the approach they became advocates for it, thus strengthening the process.

- He communicated progress with stakeholders. Davies was quick to admit that he had neglected targeted and frequent communication with stakeholders (there is more on this in Chapter 6). With his head down among the weeds, he had missed opportunities to involve them in progress and assure them that he was looking after their interests, the interests of Zed and the interests of the company as a whole. As he started to learn more about stakeholder engagement, Davies continued to ramp up communication flows, encouraging feedback and taking ideas on board. By becoming more visible and approachable and acting on what he heard, Davies showed stakeholders that he was a person they could get to like and be happy to work for. A culture of "we're all in this together – let's make it work" started to develop.

Tools for the case study

The acronym FABRIC provides a useful checklist for making decisions about measurement tools and methods.[10]

A FABRIC measure should be:

Focused on the organisation's aims and objectives, and exclude measures that are interesting but not directly relevant. Make sure everyone involved agrees that the measurements are going to be useful and relevant to what the organisation is aiming to achieve.

Appropriate to, and useful for, the stakeholders who are likely to use it. Measurements and analysis have resource implications – the benefit of each measure must be in proportion to the effort required to take it. Existing information sources should be considered before new ones are created.

Balanced, giving a picture of what the organisation is doing, covering all significant areas of work; choose measures for all important areas, and at all levels – costs, output volumes, efficiency, quality, progress towards strategic aims – even if the measures have to be subjective.

Robust in order to withstand organisational changes or individuals leaving; the information gathered must be accurate enough for its intended use as management decisions will be based upon it. Additionally, it must be verifiable, with clear documentation behind it, so that the processes which produce the measure can be validated. Further the measures should be responsive to change; measures that are relevant both before and after a radical change are useful in judging its success; those that focus on temporary aspects, or those that may change, are less useful.

Integrated into the organisation, being part of the business planning and management processes; the activity measured must be capable of being influenced by actions that can be attributed to the organisation; and it should be clear where accountability lies. With this, measures should be timely, producing data regularly enough to track progress and quickly enough for the data still to be useful.

Cost-effective. This means that the measures balance the benefits of the information against the costs of collecting it. Make sure that they:

- are clearly and unambiguously defined so that data will be collected consistently, and the measure is easy to understand and use;
- are comparable with either past periods or similar programmes elsewhere;
- avoid perverse incentives, ie, they do not encourage behaviours to meet a target rather than to improve. (For example, measuring the quantity of calls answered but not the usefulness and quality of the responses may not produce a better service.)

One of the issues with various measurement approaches and frameworks is that they remain at too high a level to be of practical benefit. They do not help with specifying the measure, discussing what methodology should be used, or how often measurement should take place. Useful practical guidance is provided in a short document from the National Oceanic and Atmospheric

Administration (NOAA – an agency within the US Department of Commerce) called Performance Measurement and Program Evaluation.[11]

Summary

Measurement is a slippery fish: difficult to catch and difficult to hold on to. Like fish it suffers from the angler's story: "I caught one this big …" People can choose to believe or disbelieve the results of the measurement.

Nevertheless, from two perspectives it is an important and necessary part of a successful organisation design implementation. Good measurement:

- indicates whether the movement from current design to intended design is working to achieve business goals and strategies;
- tracks the progress of the organisation design project.

The former is more complex, and unlike programme or project management, no standard methodologies exist.

There are many methodological approaches and tools available, and a systematic and reflective approach to deciding which to use works in favour of a robust outcome and usable results. Deciding on a small number of things to measure is a good option, and taking an ethical approach to measurement guards against charges of misreporting and bias.

6   Stakeholder engagement

How do you get happy shareholders? Start with satisfied customers. How do you get satisfied customers? Start with happy employees. How do you please employees? Try not to wreck the community they live in.

John Mayberry, former CEO, Dofasco Inc

STAKEHOLDER ENGAGEMENT is an intentional process of interacting with individuals and groups who have the power to affect positively or negatively an organisation's financial, social responsibility and environmental performance (known as the triple bottom line). The outcome of effective stakeholder engagement is an alignment of mutual interests, reduced risks to the organisation and improved results in the triple bottom line. A factsheet issued by J. Sainsbury, a UK retailer, states:

We talk regularly to customers, suppliers, colleagues, nongovernmental organisations, key opinion formers and the government and its agencies, so we can understand issues more fully, and make better decisions. We do this through an extensive and continuous programme of public and private discussions and meetings.

Our aim is to learn and get feedback on our progress, as well as to innovate and take inspiration from the work of others, ensuring that our plans evolve to anticipate the ever-changing world.

As discussed in Chapter 4, organisation design work begins with being clear about the business case for change. This frames the reasons for devoting time and energy to engaging stakeholders, raising questions such as:

- How knowledgeable are stakeholders about the current state of affairs?
- How much do they understand and share the belief that a new design is necessary?

- How can we balance what stakeholders might want in a new design with what is best for the business?
- How and when will stakeholder needs be considered as the design progresses?
- What is the best way of communicating and working with stakeholders during the design process to ensure that they have a sense of ownership of the design?
- What resources (time, money, expertise, and so on) is it reasonable to budget for stakeholder engagement work?
- What outcomes will a successful stakeholder engagement strategy achieve?

To answer these questions this chapter first considers the five steps of a stakeholder engagement process:

- Clarifying objectives for engaging stakeholders.
- Identifying the stakeholders.
- Mapping (categorising) the stakeholders.
- Determining what will engage them.
- Planning precisely how to engage them.

It then looks at three specific factors – trust, loyalty and advocacy – that, if evident, indicate stakeholder engagement. If they are not obvious, stakeholders may not be engaged in the new design, which is a real risk to its success.

Five steps of the stakeholder engagement process
Step 1: Clarifying objectives for engaging stakeholders

In organisation design work the objectives of engagement are specifically to get support for and buy-in to the new design. The ultimate objective is to have employees performing highly in the new design, and customers, shareholders, and other stakeholders showing enthusiastic support for it. Thus

the objectives for engaging them relate to the four phases of the design sequence as illustrated in Table 6.1.

TABLE 6.1 **Stakeholder engagement objectives**

Phase of organisation design project	Example high-level objectives	A successful outcome
Assess phase	To educate stakeholders about the business case for change in a way that grabs their interest To listen to the issues and needs of stakeholders as the business case for change is communicated	Stakeholders act as advocates for the business case Stakeholders trust that their views are taken seriously and inform the progress of the design
Design phase	To demonstrate the commitment to balance the needs of the stakeholders with what is best for the business in the new design	Stakeholders retain loyalty to the organisation, demonstrate trust that the new design meets mutual interests, and act as advocates for the new design
Implement phase	To work closely with stakeholders in the implementation to develop their sense of ownership of the new design	Stakeholders transfer loyalty from the old design to the new design
Optimise phase	To assess levels of commitment to the new design, and act on feedback	Stakeholders act as advocates for the new design

FIG 6.1 **ANZ: stakeholder identification**
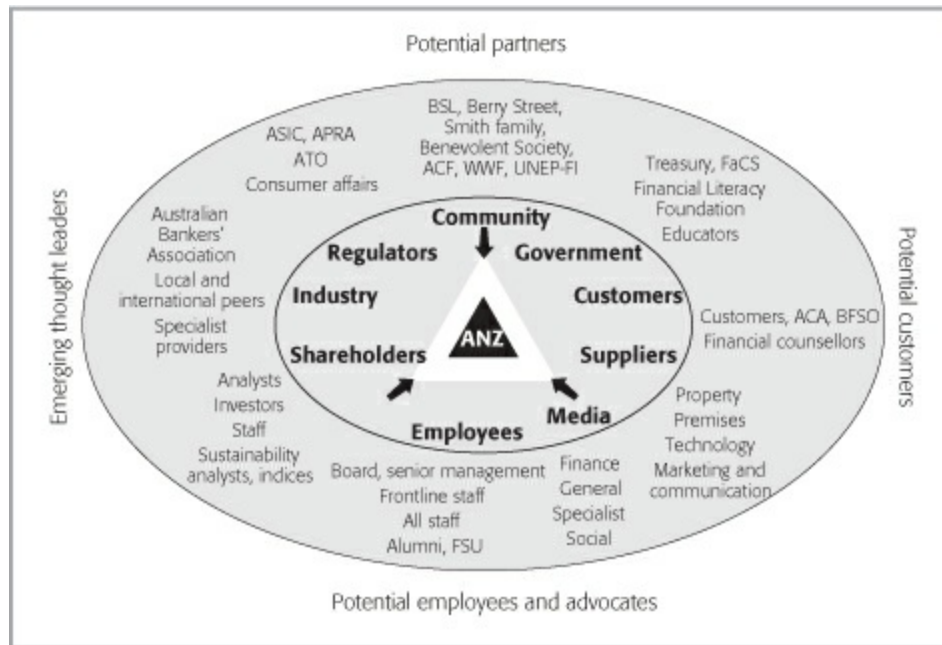
Source: www.anz.com/Documents/AU/Aboutanz/stakeholderMap.pdf (page 2)

Step 2: Identifying the stakeholders

Most organisations have a wide range of stakeholders, and it is significant that organisation design projects frequently cast too tight a net around those that they consider will be affected by the new design. When identifying stakeholders, it is important to cast widely to begin with. Look at stakeholders both inside and outside the organisation and resist the temptation to look only internally for stakeholders. Figure 6.1 shows a fairly detailed identification of stakeholders in nine different sectors at ANZ, an Australian financial institution. Note how the identification also includes potential employees, customers, partners and thought leaders.

To aid identification of stakeholders, adapt the steeple tool (see Table 1.2) slightly to provide a template. A completed example at a high level is shown in Table 6.2.

Step 3: Mapping (categorising) the stakeholders

Mapping the stakeholders means taking each of those identified and placing them in relative positions on a matrix that has two axes, as shown in Figure 6.2. The map enables an at-a-glance overview of where stakeholder engagement work needs to be focused.

TABLE 6.2 **Tool to aid identification of stakeholders**

	Internal stakeholders	**External stakeholders**
Social	Employees	Shareholders
	Leaders	Individual citizens
	Board members	Community associations
Technological	IT system owners	Software and hardware suppliers
	IT departments	
Environmental	Facilities departments	Lobbying groups
Economic	Financial system owners	Financial analysts
	Business intelligence departments	Rating agencies
		Competitors
Political	In-group and out-group leaders	Government agencies and departments
		Non-governmental organisations (NGOs)
Legal	Compliance owners	Industry-specific regulators
	HR managers	
	General counsel departments	
Extras	The organisational sacred cows, eg, everyone must have his/her own car parking space (precluding building on a site)	Trade associations
		Procurement pools

Stakeholders judged to have low influence on the new design but high interest in its success or failure are mapped in the lower right-hand segment (supervisors are the example in this instance). Stakeholders who have high influence on the design but only low interest in its success are mapped in the top left-hand segment (analysts are the example in this instance), and so on.

Before mapping it is important to:

FIG 6.2 **Example stakeholder map**
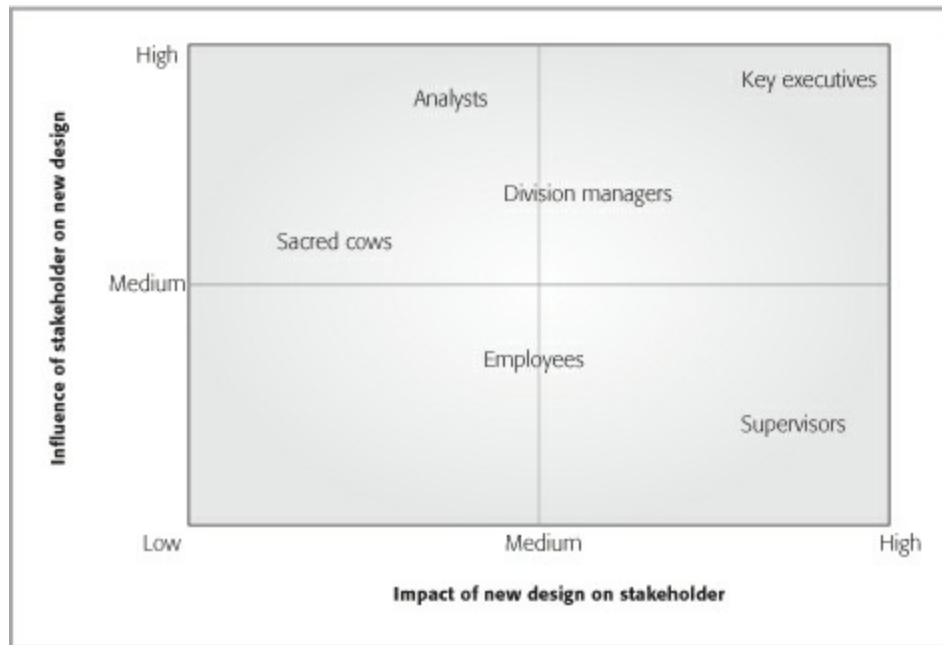
- develop working assumptions about each stakeholder's power, support and importance to project success using a variety of assessment methods, including external and internal social-media sentiment analysis (tracking language use in social-media exchanges);
- determine the current and desired levels of trust, loyalty and advocacy of each stakeholder (there is more on trust, loyalty and advocacy later in this chapter);
- validate these assumptions through, for example, one-to-one interviews with key individual stakeholders or facilitated sessions, focus groups, surveys of larger, aggregated groups, and pose questions or present information for comment on social-media platforms.

Areas to probe in this sort of assumption testing include the following:

- Knowledge of new design programme – who knows and who cares?
- Perceptions – relevance of new design to "what's really important around here" and "what is in it for me".
- Levels of commitment to new design – will the level of commitment last through the rough spots?
- Beliefs and fears – who will gain and who will lose?

- Conventional wisdom – why is this new design just like the last one (ie, this has been done before)?

The engagement work involves moving stakeholders into a segment where they are committed to and advocating the new design. Stakeholder engagement work continues through the life cycle of the project, as any individual or group can swiftly move from one position on the matrix to another. Treating a stakeholder map as a static and stable piece of information is highly risky.

Step 4: Determining what will engage them

Briefly, there are five methods available to engage stakeholders, as summarised in Table 6.3.

TABLE 6.3 **Engagement methods**

Method	Why use it?
Communication	Telling and selling are powerful tools
Education	Informing choices helps people make good choices
Involvement	Encouraging participation builds ownership and commitment
Incentives	Tapping into personal or financial goals, and showing "what's in it for me" work to bring people on board
Power	Using power in the right circumstances and in the right way is an effective tool

Use these on a pick-and-mix basis customised to address the concerns of each individual or group of stakeholders. A key stakeholder is the customer. Businesses interact with their customers through multiple channels (online, in store, through contact centres, social media and mobile, for example), and it is critical to understand how customers experience the company. Monitoring the voice of the customer can have a big impact on the design of an organisation. Christoph Brunner, head of private and wealth management clients at Credit Suisse, notes the power of encouraging customer involvement in redesigning his organisation when he participated in "Experience Immersion", a programme that gets executives out to bank branches, talking to customers, doing banking transactions and observing the customers as they interact with bank staff. Each session brings about

reflection on the organisation design:[1]

> *In some cases, we actually make it hard for customers to do business with us. [I saw] that little things make a big difference. For example, just having signage that people understand. Having friendly and helpful employees. As a bank, we often think that only the financial products themselves matter – but there is so much more that goes around that.*

Step 5: Planning precisely how to engage them

Engagement requires a strategic, systematic yet flexible approach to creating buy-in, minimising opposition and developing ownership and continuing commitment. A good measurable plan establishes key input for communications, training and compensation action.

The stakeholder map (an example is shown in Figure 6.2) can be used as a basis for determining the engagement plan and activity level. Put simply, stakeholders in the top left quadrant should be kept satisfied, those in the top right should be managed closely, those in the bottom left can be monitored and those in the bottom right should be kept informed.

With the stakeholders in mind, and knowing whether the task is to move them from one quadrant to another or to keep them in the current quadrant, devise a detailed and customised plan for each individual or group. Table 6.4 is an example from an organisation design initiative undertaken at Xerox. Note that there may be budget or other constraints on the plan and these should be taken into account.

Factors indicating stakeholder engagement

Conscious stakeholder engagement is essential not only in an organisation design project but also in the day-to-day running of an enterprise. If it is done effectively, it encourages, develops and maintains a sense of commitment and common purpose that creates value. Ken Allen, CEO of DHL Express, is well aware of the value of employee engagement. As he says:[2]

TABLE 6.4 **Example of stakeholder engagement plan detail**

Area of change	Impact	Stakeholder	Anticipated reaction/issues	Activity
Increased budget accountability	High	J. Smith	a) Want more control over spending b) May not want to encumber product managers c) May not want added visibility to their spending d) May not want visibility of past failures	Develop and review process vision, including anticipated benefits to the labels Gain support through his line managers Gain support through FD Present vision at conference
		Product managers	e) Most won't want added controls f) Don't want added visibility to their activities	Gain support through XY and YZ Investigate changes to compensation structure to support budgetary control Ensure that new process is easy to work with
		Finance manager P. Brown	g) Says historically has never worked h) Personally in favour of cost control i) How will this affect his job? j) Wants more control over spending k) Level of commitment/action unclear	Develop and review process vision, including anticipated benefits Gain support through FD if hit roadblock Constant reinforcement of how they will maintain control of process after changes Develop presentation and push for their participation (secure AB and BC support as well) Focus on one-to-one communication Create and present simplified target environment document with "Group of 4" assistance, including anticipated benefits to the labels Use target environment document as strawman

Our business, like most others, is still operated and managed by human beings, and the benefits of multi-million dollar investments in transportation infrastructure and technology will be rendered meaningless if a courier who's delivering a shipment decides to take a

bad day at home out on a customer … Fully engaged employees are your best guarantee that everyone in your organisation truly understands the importance of customers, as opposed to internal targets, to your business. This simple premise might seem obvious, but it is surprising to see how often it is overlooked.

But it is not only employee engagement that is crucial to Deutsche Post DHL's performance; customer satisfaction scores are also tracked across a scorecard of over 50 measurements, ranging from the time it takes a call-centre employee to pick up an incoming call to the percentage of shipment-tracking enquiries responded to within 24 hours. The result of this form of day-to-day engagement with employees and customers is demonstrated in the company's year-on-year solid growth and performance improvement.

Results like this owe a lot to the earning and maintaining of staff and customer commitment. Companies that foster commitment do so in various ways, for example by:

- learning from feedback on products or services;
- collaborating across the organisation and with external stakeholders to solve problems or address opportunities;
- improving the quality of life in their local communities;
- operating in a responsible and ethical way;
- seeking to contribute more than simple bottom-line profit.

The resulting "face" of commitment is stakeholder trust in the company, loyalty to it and advocacy of it to others. These three stakeholder attributes are also fundamental to organisation design project success. Design projects that can build on methods, techniques and approaches already in use in the organisation enjoy a head start in stakeholder engagement activity.

The following sections consider trust, loyalty and advocacy in the wider organisational context and indicate where organisation design projects benefit in developing these qualities in their specific stakeholder populations.

Trust

Trust is the willingness to be vulnerable to (or rely on) another party when that party cannot be controlled or monitored. Trust involves risk. For

example, when customers buy a product they put their trust in the manufacturer that it is safe to use. When they buy a service they trust that they are getting value for money and that the service will conform to their expectations. It takes constant investment to maintain trust at a level at which customers feel that they can believe what the company says and will be treated well. Many companies explicitly recognise this. Vodafone, which like many telecoms companies faces a number of market challenges, recognises that investing in trust maintenance is a stakeholder activity critical to its survival. It has a web page explaining "Why 19 million people put their trust in us":[3]

> *We want our customers to stay with us and to recommend us to friends and family. So as well as providing great products and services at the right price, we know how important it is that we listen to every customer, and resolve any questions or problems as quickly as we can.*

Sadly, the intent is often not reflected in the customer experience. Each year between 2008 and 2013, for example, customers' satisfaction with the service they received from telecoms companies was either flat or declining.

Companies have to work hard at maintaining trust. It is an attribute that is easy to lose if something goes wrong and the organisation's response is poor. Even though it happened over 30 years ago, the way that Johnson & Johnson managed the 1982 Tylenol disaster is still cited as an exemplary way of responding to a crisis. The decision taken at the time was to use the company's credo as a guide to taking the correct actions. Knowing that "We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services", leaders were able to act swiftly and with integrity to the situation (cyanide being found in some Tylenol products). Following the immediate withdrawal of all Tylenol products, Johnson & Johnson designed a new packaging process that customers trusted. As a result of its open and clear communications, which were in perfect alignment with its actions during the crisis, the company succeeded in maintaining its customers' trust.

In contrast, much of the financial sector has, since 2008, experienced major problems with trust. The Edelman Trust Barometer, an annual global study of consumer attitudes, states:[4]

As the financial services industry continues its path to recovery, the importance of trust – or lack thereof – remains front and centre within one of the world's most vital sectors. Despite slight improvements in trust levels compared to five years ago, the demand for structural and regulatory reform in the industry remains high across the globe, and the need to rebuild trust through performance is increasingly apparent.

The UK's Co-operative Bank is an example of a financial services organisation that lost the trust of stakeholders. In 2013 a £1.5 billion black hole in its balance sheet sparked the bank's problems. Lord Myners, appointed to the Co-operative Group's board to review the bank's governance, found a governance architecture and allocation of responsibilities that was "not fit for purpose". He highlighted "deplorable governance failures", among other issues, including a bid for a part of Lloyds Bank that failed to materialise, losses stemming from the acquisition of Britannia (another financial services organisation), costs as a result of a failed IT system and the arrest on drugs charges of its former chairman, Paul Flowers. The outcome was a restructuring that took the bank out of customer not-for-profit ownership into the hands of private investors.

Following the restructuring, the chair of the Co-operative Group, Ursula Lidbetter, said that the bank was fundamentally sound, but it would need to work hard to rebuild customers' trust. In April 2014, the bank said its business plan to turn the organisation around was in the early stages of execution, and that its aims were to restore its capital position. It would do this by focusing on retail and small and medium-sized business customers, while running down or exiting from non-core activities. In a statement the bank noted:[5]

TABLE 6.5 **Link between organisation design model and turnaround activity**

Organisational design model component	**Related turnaround activity**
Systems	Improving the financial systems and controls
	Investing in new IT systems
Structure	Changing governance and oversight structure
People	Bringing in new managerial talent from outside the company

	Retraining existing staff in new products and services
Performance measures	Developing robust, trackable performance measures that enable cost reduction
Processes	Developing customer engagement processes
Culture	Restoring employee and customer trust in the organisation

We intend to simplify our product range for both retail and SME customers so they are easy to understand and transparently priced. We will also support small business and fix the fundamentals, such as an investment in IT systems that deliver branch and digital banking.

A year after the restructuring it appeared that the bank was progressing towards recovery, but it still had some way to go.

The organisation design work involved in this type of turnaround plan is significant. As Table 6.5 shows, it typically involves bringing in new managerial talent, re-evaluating relationships, improving customer service, retraining employees, reducing some offerings and developing new ones, and developing better governance and oversight.

The scale of the organisation design work aimed at improving customer service and support presents a significant stakeholder trust-building challenge for organisations in a turnaround state, as Table 6.6 illustrates.

TABLE 6.6 **Turnaround activity linked to trust-building challenges**

Organisation design activity	**Examples of trust-building challenges**
Improving the financial systems and controls Investing in new IT systems	Customers and other stakeholders trusting that the organisation's control and management information systems are accurate and secure
Changing the governance and oversight structure	Customers and other stakeholders trusting that the organisation's governance and oversight board members will flag potential issues before they escalate
Bringing in new managerial talent from outside the company	Employees and other stakeholders trusting that new managerial talent will have the skills and capabilities to handle the turnaround
Retraining existing staff	New managerial talent trusting that their efforts will not

in new products and services	be undermined by too early (or pre) judgments on their capability
Developing robust, trackable performance measures that enable cost reduction	Stakeholders trusting that the organisation will return swiftly to a sound financial basis via strong performance monitoring
Developing customer engagement processes	Customers trusting that their voice matters, that their concerns and needs will be addressed, and that they will receive a high level of service
Restoring employee and customer trust in the organisation	Stakeholders trusting that the reputational damage can be restored, resulting in improved business performance

In most turnaround organisation's favour is the recognition that however welcome the turnaround moves are, their impact will not be felt for some time. This gives new managers some time to move through the four phases of an organisation design (assess, design, implement and optimise) in a considered way, to align all the components with the organisation's stated purpose, and simultaneously to build and rebuild stakeholder trust.

Engaging stakeholders by building and maintaining their trust is a wise investment, as Alan VanderMolen, vice-chairman of DJE Holdings, the parent company of Edelman, a global PR company, points out:[6]

Trust is a leading indicator of how stakeholders believe a business and/or its leaders will behave in the future. If stakeholders grant trust to companies, those companies have permission to lead. Trusted enterprises can drive the agenda of their organisations in explicit partnerships with stakeholders, leading to increased value for employees, customers, suppliers, communities, investors and, ideally, society.

Employee trust – which can be won or lost in similar ways to customer trust – is necessary for a new organisation design to succeed. In the workplace, if employees trust management and leaders they will focus on the job (and thus remain productive), rather than spend time and focus attention on various forms of defensive and self-defensive (covering their backs) risk-mitigation behaviour. Research studies show that employees' trust in all levels of management, particularly their immediate supervisor, improves organisational performance, openness in communication and information

sharing, and acceptance of organisational decisions.[7]

In conditions of change and uncertainty there is a greater need for trust because people feel vulnerable. The more trust employees have in management the more smoothly things will go. This is partly because employees will be less concerned with how the new organisation design affects their jobs than with the way the transition process is designed and implemented and the types of decisions that are made by management during this period. Organisational design changes can produce or destroy employee trust depending on how the implementation is structured and managed.

When organisation design work involves employees, levels of trust in management rise. Researchers in this field conclude that this is because participation gives employees a voice in the way the change process is planned and carried out. Employees develop trust in the design objectives and methods when they "trust their organisations to be concerned for their welfare".[8]

An organisation design project based on maintaining or developing trust is one where managers, design leaders and project team members demonstrate enough self-confidence and trust in the employees to:[9]

- speak openly about the design work and their own feelings and responses to it, including voicing doubts and fears as well as hopes and aspirations;

- demonstrate willingness to listen, learn about and respect employees' views of the organisation, and appreciate how they think and feel about their workplace;

- demonstrate their belief in employees and the business, pointing out how the design work is trying to help employees accomplish their work goals more effectively and reminding them regularly that all parties are working for the same thing;

- highlight risky situations and help employees deal with them by modelling risk taking, thus showing employees that they too are willing to take risks to serve the ends of the design project;

- relate to employees in the way they themselves would want to be related to, including demonstrating that they are not fearless, just as employees are not;

- follow through on all their promises and commitments, and share

responsibility for getting work done;

- put into practice lessons learned from previous projects, including encouraging employees in the current project to discuss approaches with employees involved in earlier projects.

Remember that people easily lose trust during periods of instability and change.

Loyalty

Loyalty is the emotional and functional state of being unswerving in allegiance, or faithful to an institution or product. It is not the same as trust – people can trust others, but this does not need to involve loyalty. So, for example, air travellers can trust that almost any airline will be safe to travel with, but they may have no loyalty to a particular airline, with purchase choices being made on the basis of cost, schedule, or whatever.

Loyalty is a functional, emotional and enthusiastic dedication to a relationship that people believe will improve their lives in the long run. Functional loyalty is quantitative and trackable. Emotional loyalty is qualitative and indicated by statements about the feel or experience of the organisation. Table 6.7 shows some types of measures of each in relation to two important stakeholder groups: staff and customers.

TABLE 6.7 **Examples of measures of staff and customer loyalty**

	Functional tracked by	**Emotional indicated by**
Customer	Loyalty programmes, eg, frequent flier	Going out of their way to purchase, eg, at shop where they know the staff
	Number of visits to store or website	
	Total spend	Talking about repeat buying from places where they are treated well
	Net promoter score (NPS)	
	Sentiment analysis	
Staff	Retention rates	Going the extra distance
	Intention to quit	Speaking up and recommending changes in a

Turnover rates	positive, confident way
Employee net promoter score (eNPS)	Recommending their company to others
Sentiment analysis	

Measures of functional aspects of loyalty can be misleading. Functional loyalty is vulnerable to a better offer: a valued employee may enjoy working for an organisation but still be lured away by a competitor; a customer who moves to a different town may have no choice or may find it more convenient to shop in a different supermarket chain from the one they had been using.

Building and maintaining emotional loyalty – which transcends functional loyalty and is less vulnerable to changing circumstances – requires developing a long-term relationship that stakeholders care about and want to maintain.

What is now known as sentiment analysis (tracking language use in social-media exchanges) is increasingly being used to track aspects of loyalty using software that monitors millions of social media data sources. But it has limitations, as an article in *Wired* magazine points out:[10]

> *We're actually not that much closer to getting a computer to understand our intent at a deeper level than we were 30 years ago, even though user interfaces and the infrastructure behind them have continued to evolve on the surface. Despite significant advances in machine learning, it's extremely difficult (or not practically efficient) for computers to understand and process natural language, automate sentiment analysis, or determine ambiguous context.*

In many organisation design projects, unless actions to maintain or increase both functional and emotional loyalty are planned into the project, stakeholders become more likely to move on because uncertainty affects their relationship with the organisation. Thus when mapping stakeholders it is helpful to label and/or measure their current and aimed for levels of loyalty.

Within organisation design, project loyalty development and maintenance activity will be focused on two stakeholder groups: staff and customers (there is less need to build loyalty in other groups, although their trust is still required). Building staff loyalty includes making them feel that they are treated fairly, that they are cared for, that they are trusted to do a good job,

that their contribution is valued and that their needs will be met.

Investing in developing emotionally (not just functionally) loyal staff is good for business results. Conversely, when staff are not loyal and the result is high turnover, it can be costly for organisations, in a number of dimensions.

The cost of high staff turnover

It is estimated that the cost of employee turnover can range from 40% to 400% of an employee's annual salary. The total cost of turnover includes money, time and other hidden or soft costs, which when combined are often much more substantial than expected.

Hard costs of turnover

- Administration costs for leavers: exit interviews, payroll changes, etc;
- Covering a vacancy with temp-workers or overtime;
- Recruitment and selection costs: advertising the vacancy, reviewing applications, conducting interviews, etc;
- On-boarding new hires: induction, training, etc;
- Severance pay.

Soft costs of turnover

- Lost expertise;
- Missed deadlines and disruptions to workflow;
- Increased absenteeism due to stress;
- Decreased productivity or customer service;
- Reduced morale, which may cause remaining employees to express a desire to leave the organisation.

Source: Price, J., "The True Cost of Employee Turnover", HR.com, March 29th 2012 (www.hr.com)

Building customer loyalty is similar to building staff loyalty. Customers too want to feel that they are human beings and not simply a source of revenue. Customers who feel that they are valued, that their custom matters to

the organisation, that they are treated well and fairly by the staff, and that their needs will be met are more likely to be emotionally, not just functionally, loyal to the company. Again, this may translate into good business results. Frederick Reichheld of Bain & Company, a management consultancy, notes that customers who promote their bank to their friends:[11]

> *[Customers] give their primary bank almost 45% more of their household deposit balances than detractors do. They buy, on average, 25% more products from the bank than detractors, and their mix of products skews toward more profitable checking and savings accounts. Attrition rates among promoters average only one-third those for detractors. Promoters make nearly seven times as many positive referrals as detractors … a promoter is worth roughly $9,500 more to a bank than a detractor. In fact, detractors have a negative lifetime value: They actually destroy value for shareholders and employees.*

The message is clear for an organisation design project: developing and/or maintaining staff and customer functional, and especially emotional loyalty, will pay dividends both quantitatively and qualitatively. Remember that losing loyalty costs more than money, so use the design process as an opportunity to develop and retain it.

Advocacy

It is not enough simply to develop, retain, maintain or grow stakeholder trust and loyalty if these stakeholders are not then active advocates of the organisation, promoting, supporting and enthusiastically recommending it to others.

To initiate a design that promotes advocacy, see the organisation through the eyes of stakeholders. A popular BBC/OPB TV co-production *Back to the Floor* highlights the power of this experience and the organisation design changes that frequently come about as a result. Wedgwood, a pottery company, is one example featured.

A stakeholder's view

The chief executive is in for a shock when he joins the production line of his largest

factory in Stoke-on-Trent. Disillusioned workers are living in fear of redundancy. Forty of Yvonne Morrall's colleagues have already lost their jobs and she is nervous and unhappy with the threat of more robots that don't work. "Less people, more machines, more profits," is how Yvonne thinks the top management view things. She tells [Brian] Patterson:

> *We see another machine and think, "How many jobs is that going to cost?" People on the shop floor feel that people like yourself are all about profits. They feel as if they are not worth anything any more. Why bother, because my job's probably going to be taken over by a machine anyway. You drive off in your BMWs and that's it, you don't care.*

Her candour is a breakthrough for Patterson, who is so deeply affected that it keeps him awake that night for hours. The next morning he acts immediately, calling a meeting with 20 workers to find out what they think of the new Wedgwood.

For Patterson, this has been a truly revelatory week that has made him think again on every reform and every aspect of his company:

> *I've had my eyes opened in an amazing way into what people … think and feel. I would never have known that really through the normal systems of management communication.*

Source: *Breaking the Mould*, BBC Active, 1999 (www.bbcactivevideoforlearning.com)

Active word-of-mouth advocacy is a held to be a major contributor to business success. The Nielsen 2013 annual survey of global trust in advertising and brand messages reports:[12]

> *Word-of-mouth recommendations/advocacy from friends and family continued to be the most influential source of information about brands, products, and services with 84% of global respondents saying this was the most trustworthy source of information.*

Beyond word-of-mouth recommendations, social-media and other online channels have given people the power to advocate for their favourites.

It goes without saying that to recommend or praise an organisation stakeholders have to trust it (although they may not have to feel any functional or emotional loyalty towards it). Again, two groups of

stakeholders that have great power in affecting the success of an organisation by acting as positive or negative advocates for it are staff and customers.

Staff advocacy is important in maintaining turnover at cost-effective levels. It contributes to motivation, raises organisational performance and draws in good recruits. Today, social-media and online channels mean that employees are able to comment freely on their organisations. For example, Glassdoor, a careers management company, displays employee reviews of numerous organisations.

Rachel Miller, founder of All Things IC, describes staff advocacy:[13]

I think [staff] advocacy for me is along the lines of … We trust ourselves and empower each other to have a voice inside our organisation. Sometimes we all might choose to share thoughts about the company externally, we can't control what each of us says and we don't wish to because authenticity is vital. When it's positive, that has clear benefits for us, when it's negative, it means we clearly have more work to do internally to ensure these voices are heard and acted on.

FIG 6.3 **Actual versus perceived employee wants**

What employees say they want (1 is most important, 10 is least important)	What employers think their employees want
Full appreciation for work done 1.	1. Good wages
Feeling "in" on things 2.	2. Job security
Sympathetic help on personal problems 3.	3. Promotion/growth opportunities
Job security 4.	4. Good working conditions
Good wages 5.	5. Interesting work
Interesting work 6.	6. Personal loyalty to workers
Promotion/growth opportunities 7.	7. Tactful discipline
Personal loyalty to workers 8.	8. Full appreciation for work done
Good working conditions 9.	9. Sympathetic help on personal problems
Tactful discipline 10.	10. Feeling "in" on things

Source: Dobrin, C., *Workplace Incentives: How Are Companies Keeping Their Talent?*, Mindflash, July 20th 2011 (www.mindflash.com)

A new organisation design is the ideal moment to consider developing positive advocates among staff. The design challenge is to recognise that social and technological changes are bringing rapid shifts in power, and that this is having a considerable impact on the relationships between staff and

organisations. Figure 6.3 shows the difference between what employees say they want and what employers think they want. Bridging this difference requires designs flexible enough to respond quickly to current and changing employee wants.

Organisations that are unable to respond to this type of thing will find that staff will not advocate on their behalf, turnover will increase and it will be difficult to recruit new talent.

Customer advocacy is somewhat different from staff advocacy as there is no contractual bond between customer and organisation. Customers form judgments based on their experience of the organisation, the trust they put in it and the loyalty they feel towards it. Customers are much less likely to be loyal now than they were in the past, partly because they have easy access to extensive sources of web-based information that enable them to make informed judgments on products and services. They no longer rely on companies' feeding them information. The result is:[14]

> *[Some companies] are providing customers with open, honest and complete information – and then finding the best products for them, even if those offerings are from competitors. They are truly expressing their customers' best interests, essentially becoming advocates for them. The strategy is this: if a company advocates for its customers, they will reciprocate with their trust, loyalty and purchases – either now or in the future. The firm might then command higher prices for its products and services, as many customers will be willing to pay for the extra value. And when people trust a company, they will often tell others about it, helping to reduce the organisation's costs for acquiring new customers.*

With this in mind, each component of the new organisation needs to be designed to align with concepts of making customers successful, in essence providing a design answer to the question: How can this organisation be designed to support customers and advocate for them? This requires a profound change in thinking for most organisations.

It can, however, be done successfully. Pampers, a P&G brand of nappies (diapers), is an example. Rather than focusing on the product, the brand messaging presents itself as a reliable source of information on each stage of child development from pregnancy through new baby, baby, toddler and pre-schooler via text, community forums, ask an expert and videos (on

YouTube). Parents start to trust the brand less for the nappies and more for the way the company acts on their behalf as an information provider. The lure to the products is through relatively subtle placement in sidebars and through promotions and competitions. Instead of being persuaded to buy products, customers are invited to join Pampers.com. One result of this is that they act as advocates for the products on non-Pampers websites such as Mumsnet, a community forum for parents.

As a new design is being planned and implemented, a focus on what will make it work for staff and customers creates the conditions in which they will become advocates for the organisation. So the design work needs to be done with this in mind, aligned and reinforced through such things as:

- online influencers who "share stories about brands. The more influential they are, the more impact their stories have on the success of a business. Active web users create about 500m impressions or data points on products and services per year, yet 80% of these user impressions are made by a mere 6% of users on social media.";[15]
- referral programmes that reward staff or customers for recommending the organisation to others;
- comparison of products, services, employment conditions with those of competitors;
- investment in high-quality products, services and employee benefits – the baseline things that ensure a certain level of satisfaction;
- reliable and effective service levels – for example, in responding to customer or staff enquiries or support needs;
- loyalty and trust-building activities (see previous sections) that encourage advocacy;
- communication that is open, clear and honest so that staff and customers know what the deal is and what they can expect.

CASE STUDY 5

Developing trust, loyalty and advocacy

The date for the spin-off of High Mark Finance as an independent company from

its parent, a global credit card and business services organisation, was fast approaching. It would be one of the largest financial advice firms in the country with over 12,000 financial advisers and 2.8m clients. In the preceding two years High Mark had had a patchy record in client satisfaction, as measured by J.D. Power & Associates, and there were worries about how both advisers and customers would react to the change. Employees and customers were blogging away and their posts were not friendly.

The view of Jon Peacock, regional manager for the north-west, was that High Mark's focus on "reinventing retirement" aimed at relatively wealthy people could be a difficult new area for his employed advisers to engage in as most of them were under 30 and were not confident in advising people older than themselves. Equally, he was uncertain that his self-employed advisers, franchised under High Mark (and in his management portfolio), would be able to refocus their businesses. For many it would mean dropping some clients because they did not have the profile High Mark wanted to invest resources in for others who did have the right profile.

Furthermore, the region for which Peacock was responsible was largely a young commuter area which did not have the more affluent segments of the population or people who were old enough to start worrying about their financial well-being in retirement. To meet this challenge High Mark advisers, both employed and self-employed, would have to focus on getting high-earning people in their 30s and 40s to recognise that now was the time to start to prepare for their financial comfort against the day when they stopped working.

Peacock was also worried that even those in the current client base who could be retained in the new target base would not act as advocates for High Mark. He asked a colleague:

> *Would they recommend us to their friends, either when we were the old company or as we become the new High Mark? There's a certain amount of inertia around financial services clients that makes sticking with a company look like loyalty. But loyalty does not make a recommendation. Maybe some clients are getting the impression that we're not interested in them. Last year we had 93% client retention, but the most recent quarter showed a dramatic drop – to 88%. If it drops further following the spin-off date, we'll have a hard time recovering ground. It's the same picture with our franchisee adviser retention – last year it was 91% and now it's 87%. Turnover among our employees is on the increase too. The main reason for this seems to be that their trust in management is dropping and they have become much more likely to leave. Dangerous rocks are looming and we need to take action now before we hit them.*

Realising that Peacock needed guidance and support in leading his region of High Mark through the transition from being a business unit in a large organisation

to being an independent entity, Peacock's colleague recommended that he take up the offer of business coaching from the parent company. A week later Peacock met the coach, who said:

What kinds of things could be done in the north-west region to reinforce adviser trust, loyalty and advocacy beyond the head office mandated ones of optimising compensation, incentives and awards, rolling out enhanced training, having the right tools on advisers' desktops, strengthening recruitment processes, and keeping an even keel between productivity and growth in the network?

Peacock had been the north-west regional manager for a number of years, and his region had always been the benchmark for others in terms of meeting goals and targets. His people were licensed and well trained and he felt distressed about the current situation. Thinking of it in terms of trust, loyalty and advocacy put a different slant on things. He thought back over the past year or so from the time the spin-off was first mooted. After mulling over the coach's comments for some time, Peacock said:

Those are good questions. I wonder if I've taken my eye off the things that make people committed and motivated – relationships, responsibility and autonomy, encouragement, a voice in the change, a quality of working life. The things that you've just mentioned I've seen countless times in corporate presentations and it's just struck me that they're about processes, systems and numbers. They're not about what we're doing to keep people feeling that they're valuable assets rather than simply productivity units, or profitability generators. Yes, we need some of that, but we've developed an organisation design targeted on trying to make the business successful rather than trying to make the advisers and the customers successful.

I've felt it myself but tried to ignore my own feelings of increasing pressure to perform with too little conversation and discussion about the values and practices of the new High Mark, where I stand in it, what I can expect from it, what is happening. The spin-off has put a great stress on everyone to design an organisation that convinced shareholders that High Mark was the right thing to do. Maybe worrying too much about the analysts and too little about our advisers and customers is showing in what's happening now.

So when asked what he was going to do, Peacock responded:

I'm going to clear my calendar and spend part of next week alongside an employed adviser, and part of it alongside a franchisee. When I get back I'll call my management team together and describe what I see going on, and how I feel about it. Then I'm going to offer some explanations for why things

seem to be going downhill. I'll suggest some ways forward from my perspective, but before I do that I'm going to invite them to describe and explain from their viewpoints. I'm hoping that together we can suggest a range of ways forward for designing into the new organisation the committed, motivated advocates we want our advisers and customers to be. I don't know if my approach will work but I hope it will start things rolling in the right direction.

Over the next six months Peacock and the coach worked on developing an organisation design that would create the conditions for trust, loyalty and advocacy in the north-west region. They gave particular attention to getting better alignment between the systems, structures, people, performance measures, processes and the culture, involving employees and staff in the discussions about how best to do this. Because a large proportion of revenue came from self-employed advisers running franchises, there had to be a single overarching vision that they all subscribed to, but this had to be combined with the flexibility to operate competing strategies (see Nadler's Updated Congruence Model, Table 2.2).

Peacock set up a project team comprising a cross-section of the organisation. He tasked team members with assessing the current situation, evaluating the change readiness of the advisers (employed and self-employed), conducting a stakeholder analysis and mapping exercise, preparing a high-level communications plan that focused on the specific needs of the north-west region's stakeholders, and determining the level of managerial support needed to make the north-west region high performing. He also asked them to gauge the level of training that would be required to give advisers the confidence to work with the targeted customer group.

The findings of this exercise convinced Peacock that he had to focus on building and rebuilding the trust and loyalty of his stakeholders, in particular the advisers and existing customers who were in the segment High Mark was focusing on. Having got to that point, Peacock felt that he would start to see advocates emerging. It was hard work. Trust and loyalty lost are not easily regained, so it was particularly gratifying when the phone rang one day while Peacock and his coach were discussing the outcomes of that week's "listening post" with customers. It was the manager of the neighbouring division, who said:

Hey, Jon, what's going on over there? I've just seen your adviser and customer satisfaction rates, and they're way ahead of mine and back to the level they were when we were all part of the larger organisation. Tell me how you're doing it.

Peacock laughed and replied:

I've designed in some processes for looking through the eyes of the advisers and customers rather than through the eyes of the shareholders and analysts.

It's working – listen to what one of the participants in the listening group just said:

> *"I am a client of High Mark, and the other day I called their free-phone number and was shocked. The person I talked to was very nice and helpful. He walked me through the options that I had for when my certificate came up for renewal. He did not try to sell me anything, just gave me the facts. It's nice to know that even in this day and age one can call and get someone who is genuine and kind. From my experience they are a very down-to-earth company. I've just recommended them to a friend at work."*

Comments like that are on the increase and with them are coming better financial results. So not only are High Mark customers benefiting, but the new design focus is bringing shareholder satisfaction too.

Reflections on the case study

A major change – such as a spin-off, a new CEO, an acquisition, or a new product or service line – brings with it huge upheaval and unusually close scrutiny from shareholders anxious about the value of their stock. An example is the appointment of Satya Nadella as CEO of Microsoft in February 2014. The news sparked an increase in the company's share price, helped by Nadella's reassurance that the company would become more nimble under his leadership, constantly reassessing its plans and innovating faster. Quick action would be necessary to take advantage of what he described as a "gold rush" era in cloud computing. He said:[16]

> *We have really picked up the pace of asking the hard questions. I want to be very accountable to you all, and to our customers, as a team, by executing well. At the end of the day that is all that matters.*

With all types of organisation there is a tendency to focus on designing the "hard" aspects of the new state – the systems, processes, structures and technologies – and to neglect the design of the soft aspects – behaviours, culture and relationships. This is a mistake, but it is an easy one to make because the hard aspects are easier to quantify, measure and do something about. It is best to take the view that although the soft stuff is the hard stuff to design, being successful at it brings results that more than repay the work involved.

In the case of High Mark, Peacock did several things once he recognised

the design was going wrong:

- He went on field trips to see what was happening with customers and staff day-to-day. It is easy for managers to lose touch with the frontline operation and therefore not to experience it as customers and staff do. Recognising this, some organisations have introduced programmes that encourage contact with parts of the business from which managers are normally remote. The programmes take different forms: shadowing staff, becoming a staff member for a short period, buying the company's goods through the channels that the customers use and variations on these themes. The idea is to help managers identify and understand what the blockage is and what needs to happen to encourage staff and customers to trust the organisation, develop an active loyalty to it and speak highly of it to others.

- He established listening groups. These are forums where stakeholders participate in facilitated discussions to air their views on particular topics or respond to questions asked by managers. Usually a senior manager is present or may be conducting the group. Groups are generally made up of no more than 15 people representing a cross-section of the targeted population – that is, those people who have the profile of the group the organisation is interested in. In the case of staff it might be a supervisor group; in the case of customers it might be men between the ages of 30 and 40.

- Of course, listening groups are not the only way to listen to customers and staff, as Table 6.8 shows.

TABLE 6.8 **Ways of listening to customers and staff**

Stakeholders	How to listen
Customers	Sales information
	Weekly and monthly monitoring of views
	Surveying customers
	Customer panels
	Annual independent surveys
	Communications to head office

	Communications to specific business groups
	Social media and online forums and communities
Staff	Company-wide local, regional and national employee representation forums
	Confidential helpline
	Regular employee surveys
	Internal communications, including employee magazines, regular business updates and team briefings
	Focused consultation programmes
	Listening groups conducted by senior management
	Social media and online forums and communities

- He went back to some basic design models to diagnose where he had missed pieces. Peacock had adopted Nadler's Updated Congruence Model (see Table 2.2) for his design. This comprises four organisational elements: people, culture, formal organisation and critical tasks. He recognised that the main focus of his High Mark design was on the systems, processes and structures (that is, the formal organisation and the critical tasks), and that he had neglected the people and culture elements. This meant that High Mark was out of alignment. The result was poor morale accompanied by a lowering of loyalty, trust and advocacy. Using a model to help identify and highlight any lack of alignment is helpful, as is doing some straightforward alignment tests (see Tools for this case below).

- He recognised the power of designing the soft stuff to create conditions of loyalty, trust and advocacy. The people and culture aspects of an organisation are the more difficult ones to design, so it is tempting to pay less attention to them and hope things will work out. However, a quick scan of employee blogs or customer report sites often reveals the power and influence that these stakeholders have and the numerous ways they can wield this power. In High Mark's case, the strategy was centred on the vision of "reinventing retirement financial planning". Peacock's decision to involve customers and staff in discussions on this resulted in not only organisational alignment decisions but also the restoration of trust, loyalty and advocacy. Once

these stakeholders felt that they had a voice and that their views would be translated into actions, they started to trust High Mark and rally behind it.

Tools for the case study

In this case it was not always possible to bring appropriate stakeholders to workshops and focus groups. High Mark made use of technology-based collaborative software and groupware to get optimum attendance at meetings. Many different technologies exist for this and they are developing rapidly in sophistication and ease of use. Good practice seems to suggest that people meet face-to-face in the first instance to establish rapport, develop a sense of each other and feel comfortable working together. However, it seems that after an initial meeting people are happy to use technology to support their collaboration and discussion. A good forum for finding out more about collaborative technologies is www.collabtech.org, which describes the annual collaborative technologies conference.

People usually need to remind themselves of the option to listen but rarely of the option to talk. Attentively listening is a skill to learn. In this case executives attended a skills workshop and received the checklist in Table 6.9 as a reminder.

Lastly, Peacock initially worked with his coach on an alignment diagnosis. He scored the statements on the profile, totalled the score for each section, and then plotted and connected the four scores on the diamond in Figure 6.4. This allowed him to see that High Mark was weak in some areas and strong in others.

TABLE 6.9 **Effective and active listening**

Listening is wanting to hear. It requires a degree of concentration that involves mental receptiveness coupled with physical alertness	
Good listening habits	Being intent on hearing what is said
	Detecting any underlying or hidden meaning that accompanies a speaker's words
	Separating out a speaker's facts from their feelings to get the meaning
	Preventing emotional reactions to the speaker from conflicting with accurate perceptions of meanings

Withholding the tendency to be thinking of a response before the speaker has finished

Reviewing and summarising the speaker's message content

Asking the speaker clarification questions

Wanting to hear so not filling silences but waiting

Focusing on key points

Taking notes, when possible, to express interest and to improve retention of the message

FIG 6.4 **Alignment diagnosis**

TABLE 6.10 **Alignment diagnostic profile (short version)**

Strategy	Strongly agree								Strongly disagree	
Organisational strategies are clearly communicated to me	1	2	3	4	5	6	7	8	9	10
Organisational strategies guide the identification of skills and knowledge I need to have	1	2	3	4	5	6	7	8	9	10
People here are willing to change when new organisational strategies require it	1	2	3	4	5	6	7	8	9	10
Our senior managers agree on the organisational strategy	1	2	3	4	5	6	7	8	9	10
Total										

Customers	Strongly agree								Strongly disagree	
For each service our organisation provides, there is an agreed-upon, prioritised list of what customers care about	1	2	3	4	5	6	7	8	9	10
People in this organisation are provided with useful information about customer complaints	1	2	3	4	5	6	7	8	9	10
Strategies are periodically reviewed to ensure the satisfaction of critical customer needs	1	2	3	4	5	6	7	8	9	10
Processes are reviewed regularly to ensure that they contribute to the attainment of customer satisfaction	1	2	3	4	5	6	7	8	9	10
Total										

People	Strongly agree									Strongly disagree
Our organisation collects information from employees about how well things work	1	2	3	4	5	6	7	8	9	10
My work unit or team is rewarded for its performance as a team	1	2	3	4	5	6	7	8	9	10
Groups within the organisation co-operate to achieve customer satisfaction	1	2	3	4	5	6	7	8	9	10
When processes are changed, the impact on employee satisfaction is measured	1	2	3	4	5	6	7	8	9	10
Total										

Processes	Strongly agree									Strongly disagree
Our managers care about how work gets done as well as about the results	1	2	3	4	5	6	7	8	9	10
We review our work processes regularly to see how well they are functioning	1	2	3	4	5	6	7	8	9	10
When something goes wrong, we correct the underlying reasons so that the problem will not happen again	1	2	3	4	5	6	7	8	9	10
Processes are reviewed to ensure they contribute to the achievement of strategic goals	1	2	3	4	5	6	7	8	9	10
Total										

Source: Organizational Dynamics Inc (www.orgdynamics.com)

Summary

Stakeholder engagement is a crucial activity in the organisation design process. Analysing and mapping stakeholders reveals what to incorporate in a detailed and flexible engagement plan that builds trust, loyalty and advocacy.

Staff and customers are two stakeholder groups with which it is critical to

develop trust and loyalty. Generating either or both of these attributes does not necessarily lead to advocacy, but staff and customers who are trusting and loyal are more likely to be advocates of an organisation.

Trust and loyalty are developed by taking steps to design the organisation from the perspective of those stakeholders, the objective being to answer the question: What design will lead to our staff and customers being successful? Encouraging staff and customers to participate and collaborate in the design process is a recipe for success.

7 Leadership and organisation design

Hard it is to learn the mind of any mortal, or the heart, 'til he be tried in chief authority. Power shows the man.

Sophocles, *Antigone*

FORMAL LEADERSHIP of an organisation design project may lie with one person in the hierarchy, but in practice designs are developed, implemented and led by many. Typically, depending on the size of the organisation and the design project, an individual will sponsor a business plan for the design but the day-to-day operational leadership will be delegated to a steering group and then on to programme directors, project managers, team leaders, and so on. Figure 4.2 in Chapter 4) illustrates the project leadership roles and who is accountable to whom, and who is to lead whom in order for the project to succeed.

Note that some of the roles shown in Figure 4.2 include the word "manager". This does not mean that people in these positions are not leading – they are both leading and managing. This might seem obvious but, given the many perspectives on leadership versus management, it is worth making the point (taking fairly standard definitions) that if leaders set and spearhead a new direction or vision for a group, and if managers control or direct people and resources in the group to realise the new direction or vision, then as far as an organisation design project goes the individuals shown on the chart are in both roles. With this perspective in mind, there is no reason a person cannot be simultaneously a leader and a manager. Inevitably, within an organisation design project, this is what many of the players are.

Virginia Mason Medical Centre in 2001 adopted the main principles of the Toyota lean production system (a specific continuous improvement approach) to redesign its organisation totally. For more than a decade, it has been using the techniques to keep on incrementally redesigning in order to gain performance improvements.

The leadership role in continuous improvement is critical, as Sarah

Patterson, the medical centre's executive vice-president and chief operating officer, explains:[1]

As a leader, you've got to live this every day, because what you are doing is changing the culture of the organisation by changing the behaviours of the leaders. If you think you can stop leading the weekly report-outs on improvement work, or stop doing gemba walks [a form of management by walking around] to see what is going on in the organisation, or say that executives don't have to be certified lean leaders any more because they are too busy and because we've come so far, you're wrong. If you start backing down, if you give up on important commitments you have made as leaders − which really make up the structure and discipline of the management system and require that leaders be coaching and mentoring on the front lines of the organisation − you've lost.

What Patterson is implying is that leadership is about not only position but also the use of various other sources of power, in this instance proficiency as a lean practitioner. Considering formal leaders of organisation design work in terms of their ability to wield power (defined as having the means to influence the behaviour of others) is helpful, because there are many sources of power that leaders can draw on. Some of these are as follows:[2]

- formal authority;
- control of scarce resources;
- use of organisational structure, rules and regulations;
- control of decision processes;
- control of knowledge and information;
- control of boundaries;
- ability to cope with uncertainty;
- control of technology;
- interpersonal alliances, networks and control of informal organisation;
- control of counter organisations;
- symbolism and the management of meaning;
- structural factors that affect the stage of action;

- the power one already has (personal power);
- "ownership" of a contract vehicle;
- reputation, credibility, or charisma (sometimes called referent power);
- control of definition of certain situations, for example the difference between terrorism and freedom fighting;
- control of media/communication channels.

Typically, designated organisational leaders draw on formal authority, control of resources and use of organisational structure, rules and regulations. But they have to draw on other sources depending on the situation. In many organisation design projects, formal leadership is vested in consultants or contractors who are not directly employed by the enterprise. These leaders have to use different sources of power; although they may have formal authority, they may not control resources or the use of organisational structures. If these "outsider" leaders are not skilled at identifying and using the power sources at their disposal, they are often sidelined for not being "one of us".

As well as the organisation design leaders – those in the formal designated roles shown in Figure 4.2 – there will be others inside the organisation who can wield power to influence or control organisation design work. These may be people with positional power (in other leadership roles but not directly involved with the organisation design project), or those who do not have any formal leadership position but can influence people's behaviour by wielding other types of power. These informal leaders may have more impact on an organisation design than the formal leaders. For example, in 2005 there was a campaign to unionise Walmart, which changed its design as a result of the action:[3]

The Service Employees International Union (SEIU) funded group "Wal-Mart Watch" also kicked off its campaign in April with full-page ads in major newspapers that focused on what it called low-level wages the retailer pays to its workers. Chris Kofinis, a spokesman for the United Food and Commercial Workers union (UFCW) campaign, said the shift from traditional organizing to a grass-roots public campaign was necessary because of Wal-Mart's ability to block union efforts. In April, for example, the company closed a store in Quebec, Canada, after its

workers voted to join the UFCW. In 2000, it eliminated all US meatpacking positions after meatpackers in Texas voted to unionize.

Determined not to recognise labour unions, Walmart took the decision to close a store, which led to a shake-up of the organisational design in Canada. And in eliminating all meatpacking positions it had to find other methods of doing this work, again changing the design of the organisation.

Within an organisation there are internal informal leaders who have the power to affect the success of the current or new design. Continuing the Walmart example, ten years later it was still fighting against unionisation. In 2011, in the face of this, workers formed a non-union group, Organisation United for Respect at Walmart (OUR Walmart), with the aim of pressing for better pay and benefits and more respect at work. In November 2012, OUR Walmart organised strike action over low pay and working hours.

It is clear that the actions of these informal internal leaders could lead to Walmart's redesign, especially as following a similar workers' demonstration in 2013, the National Labor Relations Board announced that it would prosecute the retailer for illegally firing or disciplining 117 striking workers. Many of these charges stemmed from the 2012 Black Friday protests, when a Walmart spokesperson threatened reprisals against associates who planned to strike.

Informal external influencers or thought leaders can also have a significant impact on an organisation's design, often through online and social-media channels. Two things are contributing to the increase in these types of protest. Social media are highly effective communication channels with the ability to mobilise networks of people quickly. However, the mobilisation aspect of social media does not always translate into on-the-street action. For example, in the case of Walmart, social media are valuable in publicising and gaining online support for the issues but not as effective in getting people onto picket lines. As an article in *Security Weekly* makes clear:[4]

Social media allow organisers to involve like-minded people in a movement at a very low cost, but they do not necessarily make these people move. Instead of attending meetings, workshops and rallies, un-committed individuals can join a Facebook group or follow a Twitter feed at home.

TABLE 7.1 **How social media have changed the world**

Before social media	After social media
Vertical command-and-control interactions	Unscripted horizontal interactions
The leader speaks	Anyone can speak
Controlled communication	Uncontrollable communication
Experts create	Co-creation
Privileged information	Open information
Positional power	Expert power
Process infrastructure	Social infrastructure
Management	Self-organisation
Leaders accountable	Shared accountability

Nevertheless, online protests, comments and "likes" have an influence on leaders' thinking about their organisation design, particularly how social media can be designed into the overall performance of the organisation to mitigate against the risks of reputational damage as a result of things "going viral".

Table 7.1 illustrates how the world has changed since the advent of social media and the different designs that are now required. (Cocoon Projects, discussed in Chapter 4, is an example of an organisation designed for the social-media world; and GE is a long-established company that has excelled at designing for social media.)

Organisation design success depends on the complex interactions of four broad leadership groups: internal formal leaders, internal informal leaders, external formal leaders and external informal leaders or opinion influencers. Each of these groups has at their disposal various sources of power (see above), and although formal leaders may have access to more of these than informal leaders, the way the power is wielded is an important determinant of the outcome. As people who practise martial arts know, soft as cotton can be as hard as steel.

Access to and use of power is one of several variables determining ability to lead. Others include style of attracting and holding on to followers; stability or instability of circumstances; personal motivation; and the organisation's political landscape. The efficacy of a leader changes as the

context changes, and someone who cannot adjust their style of leadership or draw on a different source of power is opening the door for someone else to seize the leadership role.

This chapter examines the internal formal and informal leadership of organisation design work, focusing on the formal leaders within the enterprise charged with delivering the new design and the internal informal leaders who can act to support or stymie it.

Formal leadership in organisation design

Figure 4.2 shows the formal organisation of typical large-scale projects and programmes. The names of the formal leaders of an organisation design project appear in the boxes. Smaller projects will not have the same number of people involved; in some cases, a line manager will lead a project single-handedly. Whatever the number of designated leaders they all have, by virtue of their position, three specific power sources: formal authority; control of scarce resources; and use of organisational structure, rules and regulations. They may have additional sources of power, but it is these three that are usually associated with hierarchical position. How well they use or are able to use their power depends on the context and on their leadership style and behaviour.

The context for organisation design typically presents formal leaders with a number of challenges. In essence, they must simultaneously:

- balance the demands of the day job with the demands of the project;
- manage a range of competing important and urgent priorities, tasks and activities;
- help staff cope with what is inevitably seen as yet another change (in some organisations this is called managing "change fatigue");
- satisfy the need of the business for a fast change that also gets things right;
- get the timing right on leadership issues – know when to push and when to let go;
- motivate stakeholders who do not report to them but whose input is critical to the project;
- work effectively with other leaders both inside and outside the

project.

This is difficult to accomplish but it can be done. One leader who was successful in meeting these seven challenges was Aaron Schwartz, who joined Bruno Magli, a high-end shoe company, in 2004 as president North America. He had a mandate to redesign the organisation and the leadership skills to do it effectively. His report on the experience is shown in Table 7.2.

The company's newly designed US arm started off doing well – annual sales in 2005 were $35.8m, about 50% of worldwide sales – and it was still going strong in 2012 when Patricia Malone was appointed CEO North America, with a mandate to grow the US part of the company further (involving more design work). In 2014 Da Vinci Invest, a Swiss asset manager, bought Bruno Magli from Fortelus, a London-based hedge fund. Bruno Magli's new CEO, Manfred Ebensberger, said the new ownership would help the shoe, bag and clothing-maker accelerate plans to expand its product range and develop its wholesale network worldwide.

TABLE 7.2 **The leadership challenges in organisation design**

Report	Challenge
"North America had always been a precarious market for Bruno Magli, and it was especially so after September 11th. The business was under siege. We had treacherous retail leases and currency pressure from the euro, and were undergoing management changes as the Bruno Magli family retired. By 2004 we needed to clean up the business. Frankly, the fastest, most effective way to do that in the States was to file for Chapter 11 bankruptcy.	1 Balance the demands of the day job with the demands of the project 2 Manage multiple competing important and urgent priorities, tasks, and activities. 3 Satisfy the need of the business for a fast change that also gets things right.
"Even though we were using it as a strategic tool, the very word 'bankruptcy' can cause heart palpitations. The parent company in Italy was dumbfounded – they pictured us closing the business and selling the furniture. But this was all very carefully planned.	4 Motivate stakeholders who do not report to them but whose input is critical to the project.
"Still, I was anxious. In fact, I was a	5 Work effectively with other leaders

nervous wreck. No matter how much expert advice you get from lawyers and PR firms, it's still bankruptcy. I kept thinking, I'm plunging this 74-year-old company into ruin. But it was such a release to be able to tell employees that I was nervous, too. Don't hide it. You absolutely have to be honest with people. We said, 'We're not going to tell you that nobody's going to lose their job.' Although we had to lay off about 50 people, there were no surprises.

both inside and outside the project.

6   Get the timing right on leadership issues – know when to push and when to let go.

"I know this doesn't sound right, but the bankruptcy was like a gift. Everyone knew we were changing, so a buzz built around what our future might be. It was like a start-up with the safety net of an established brand and a strong corporate parent. And the results showed. By this spring, we couldn't deliver enough products to meet demand. That was a real vindication."

7   Help staff cope with what, inevitably, is seen as yet another change (in some organisations this is called managing "change fatigue").

Bruno Magli North America emerged from bankruptcy in January 2005. After closing its retail stores in the United States as part of the restructuring, the luxury shoemaker opened its first shop-within-a-shop concept in May at the Arthur Beren shoe store in Beverly Hills.

Source: Underwood, R., "Fast Talk: Leading Through Limbo", *Fast Company*, September 1st 2005 (www.fastcompany.com)

Although there are some roles in organisation design work that are dedicated to the project, for example the programme manager, much of the work is led by people with dual roles. Schwartz typifies a leader who simultaneously spearheaded an organisation design programme and led the day-to-day operation of an enterprise. Whatever the leadership level in the business, to lead project work and day-job work successfully – meaning managing the seven challenges – it is necessary to determine the demands of the role in the project and develop an appropriate leadership style.

Determine the demands of the role in the project

Have a clear grasp of the vision, mission and purpose

This may sound obvious, but when someone is given a leadership role in a project that is already under way, it is easy to leap into action without properly understanding the project's objectives. To understand what is being taken on:

- identify and assess what is going on behind the scenes;
- meet at least some of the stakeholders and get their views;
- make certain there is high-level agreement (sponsor or accountable executive) on outcomes and deliverables;
- agree and document the context and boundaries of the leadership role;
- assess and get a realistic view of the project in the context of all the other work that makes time demands.

Determine whether work needs to be reprioritised or resources reallocated

This will involve discussions within the business. It may also involve renegotiating personal performance objectives and balanced business scorecard measures and taking steps to reset performance expectations. Leaders who try to take on large amounts of project work on top of their normal workload without making agreed adjustments are not doing anyone a favour.

Clarify and establish the boundaries of the role

Usually it is up to the leader to get statements from stakeholders about the edges of the role so that people are not going into the organisation project with untested assumptions. Consultants and contractors coming into project leadership roles must be diligent in deducing how consistent insiders are in their view of the role and its deliverables.

Establish levels of accountability and responsibility

Accountability and responsibility are not the same thing. A team leader may be responsible for the effective performance of team members and may be accountable for ensuring that they deliver a 10% increase in product sales in

the next quarter. Alternatively, the team leader may be accountable for the 10% increase in product sales but it is someone else's team members who are the prime agents. Check that there are clear linkages between accountabilities and responsibilities and/or clear methods of resolving issues that may arise in trying to deliver outcomes using resources for which the leader is not responsible.

Secure resources

Securing resources includes appointing an effective deputy who is fully briefed and engaged in both the project and the day-to-day work and is able to stand in for the leader as the situation demands. It also means leaders making sure that they have enough time in which to plan, eliminate duplication of activities, and communicate consistently and regularly with stakeholders (in both the project and day-to-day work).

Develop an appropriate leadership style

Mobilise the formal and informal leaders to work together

This is a hard trick to pull off, particularly for people brought in specifically to turn around a project in trouble. It is a matter of achieving the right balance of getting on with those you have to work with and getting on with achieving the objectives of the project – all within a short period of time.[5]

Build trust quickly by being both credible and competent

Beyond leadership style people look for certain behaviours before they start to trust their leaders (see Chapter 6 for more on trust). Staff observe regularly what leaders pay attention to, measure and control. For example:[6]

- how they react to critical incidents and organisational crises;
- how they allocate scarce resources;
- instances of deliberate modelling, teaching and coaching;
- criteria for allocating rewards and status and recruiting, selecting, promoting, retiring and excommunicating organisation members.

Leaders who are unpredictable, volatile or eccentric, or who are micro-managers or have other characteristics known as "derailers", for the most part

cannot build trust. Derailers can have devastating effects on the lives of their followers and their organisations. "Chainsaw" Al Dunlap, fired from his role as CEO of Sunbeam in 1998 after just less than two years in post, is one example of a tyrannical leader whose methods destroyed morale in the company and almost destroyed the company itself:[7]

> *Rarely does anyone express joy at another's misfortune, but Dunlap's ouster elicited unrestrained glee from many quarters. Former employees who had been victims of his legendary chainsaw nearly danced in the streets of Coushatta, La., where Dunlap shuttered a plant. Says David M. Friedson, CEO of Windmere-Durable Holdings Inc., a competitor of Sunbeam: "He is the logical extreme of an executive who has no values, no honor, no loyalty, and no ethics. And yet he was held up as a corporate god in our culture. It greatly bothered me." Other chief executives, many of whom considered him an extremist, agreed that Dunlap's demise was a welcome relief.*

During his time at Sunbeam, Dunlap reduced the number of factories from 26 to 8, cut $225m of costs, reduced the workforce by 6,000 and cut charitable contributions. The share price initially rose but then fell dramatically to below the price it was when he took the helm with a mission to save it.

Steve Jobs, CEO of Apple from July 1997 until his resignation on grounds of ill-health on August 24 2011, was also described as tyrannical:[8]

> *[He] was not a consensus-builder but a dictator who listened mainly to his own intuition. He was a maniacal micromanager. He had an astonishing aesthetic sense, which businesspeople almost always lack. He could be absolutely brutal in meetings … [and] eviscerate staff members for their "bozo ideas".*

Yet he took the company's performance to staggering new heights. Many reasons have been put forward as to why his style was successful at Apple. One of the compelling ones is that he was extremely knowledgeable about products and product design and focused on the detail of these rather than on more general management issues. His workforce respected and admired him for this. When he resigned employees and customers alike were united in their tributes to him. Jobs died on October 5th 2011.

The price that Jobs paid for his tyrannical style was:[9]

The loss of people who need more encouragement along the way. Such an approach also undermines the emotional commitment of B players, who in most enterprises constitute more than triple the organisational teaming capacity of A players.

Recognise and reduce the fear people may have

Even people who trust their leaders may be fearful, for all sorts of reasons, at the thought of an impending organisation design change. Fear has a stultifying and demoralising effect. As Edmund Burke, an 18th-century philosopher, remarked: "No passion so effectively robs the mind of all its powers of acting and reasoning as does fear." People's fear of uncertainty, disruption and unknown outcomes may inhibit them from asking questions, participating in the design work or expressing a view about it. As Michael Carroll says in his book *Awake at Work*:[10]

When the assistant who is rudely dismissed by his boss in a meeting becomes sullen and withdrawn, we see the silence of fear. When the accountant keeps her eyes down as the sales manager presents highly questionable sales numbers to the CEO, we again see such silence.

It is rare for people to admit to being afraid, so looking for what is not being said and recognising that people are likely to be fearful is the first step towards creating the conditions in which they can face their fear and work with it positively. For a leader of an organisation design project, this means encouraging communication, involving people in the design work and decisions, and behaving in a respectful way to others. (See Chapter 6 for more on creating conditions for openness and dialogue.)

Use power wisely

Leaders who consistently use the same power source(s) usually fail, sometimes spectacularly, in achieving their mission. NASA is an example of an organisation that for many years had leaders who predominantly used formal authority, control of decision processes and organisational structure, and rules and regulations. This led, in part, to the tragic crashes of the space shuttles Challenger (in 1986) and Columbia (in 2003). The Columbia Accident Investigation Board report notes that within the agency:[11]

With Columbia, as with Challenger, the board found, decision-makers were overly influenced by pressures to launch on time. In blind adherence to safety rules, they ignored hunches and intuition about faulty equipment. They valued organisational charts over good communication. The report chastised the agency for habitually turning a deaf ear to outside critics, and for clinging to the belief that NASA alone knew best how to safely send people into space.

Signals were overlooked, people were silenced. Communication did not flow effectively up and down the formal chain of command.

Work skilfully with "followers"

Lao Tzu, author and founder of Taoism, described the ideal state in 6BC:

A leader is best when people barely know that he exists, not so good when people obey and acclaim him, worst when they despise him. "Fail to honour people and they fail to honour you." But of a good leader, who talks little, when his work is done, his aim fulfilled, they will all say, "We did this ourselves."

FIG 7.1 **Hersey and Blanchard's situational leadership model**

Supporting
Leaders facilitate and take part in decisions. But control is with the follower.

Coaching
Leaders define roles and tasks, but work closely with the follower. Decisions remain the leader's prerogative, but communication is two-way.

Delegating
Leaders are involved in decisions, but control is with the follower. The follower decides when and how the leader will be involved.

Directing
Leaders define the roles and tasks of the "follower", and supervise them closely. Decisions are made by the leader and announced.

Supporting behaviour (vertical axis)

Directive behaviour (horizontal axis)

Source: Adapted from www.kenblanchard.com/solutions/onetoone/slii_model

The way leaders do this depends on their style, and there is no best leadership style. What will work in one situation may not work in another, as

the examples of Dunlap and Jobs, both described as "tyrants", illustrate. Knowing this, it pays to be alert to the nuances of different situations, and to behave consistently in similar ones. Random and unpredictable behaviour only confuses and alienates people; this is the opposite of what is required in an organisation design process.

A helpful framework for considering leadership style is Paul Hersey and Ken Blanchard's Situational Leadership Model. It is based on the theory that leadership style is demonstrated by the amount of direction and support that a leader gives to "followers" and is represented in a grid (see Figure 7.1).

The premise is that leaders flex their style depending on the needs of the follower. This responsiveness creates a culture of openness where followers feel respected and valued.

Be conscious of the interests and motivations of other leaders in the programme or project

Gareth Morgan, in his discussion of organisations as political systems, suggests:[12]

People must collaborate in pursuit of a common task, yet are often pitted against each other in competition for limited resources, status, and career advancement.

Organisation design projects by definition shake things up – coalitions change as the project progresses. In most cases there are some leaders who feel that they will either win or lose from any proposed design and will then act to preserve their own interests at the expense of organisational interests. Being able to build what John Kotter, in a classic article "Leading Change: Why Transformation Efforts Fail", calls a "guiding coalition" that balances both collaboration and competition becomes essential to project success on the basis that:[13]

Efforts that don't have a powerful enough guiding coalition can make apparent progress for a while. But, sooner or later, the opposition gathers itself together and stops the change.

So formal leaders of organisation design projects face daunting challenges, but these can be met. Wayne Hale, the space-shuttle programmer at NASA in charge of the effort to get the shuttle flying again, talks about the

Columbia space-shuttle disaster in 2003:

> *We dropped the torch through our complacency, our arrogance, self-assurance, sheer stupidity, and through continuing attempt[s] to please everyone. It is time to adjust our thinking.*

Three years later, following significant organisational design work at NASA (it has estimated its Columbia investigation and return to flight efforts cost about $2.3 billion in 2006), Discovery was successfully launched on July 4th 2006. In the weeks leading up to the launch, two NASA officials, chief engineer Chris Scolese and chief safety officer Bryan O'Connor, gave a "no-go" for the launch:[14]

> *[Michael] Griffin [NASA administrator] called the disagreements about the repairs a good sign that the culture at NASA has changed. The agency was faulted by the Columbia investigation board for having a conformity of opinion. "I personally want every engineer to express the best opinion that they can give us," Griffin said.*

Following Discovery's touchdown on July 17th, the commander of the shuttle, Steven Lindsay, noted:[15]

> *I think we're back to space station assembly, to shuttle flights, but we're still going to watch and we're still going to pay attention. We're never ever going to let our guard down.*

Achieving Discovery's mission took a coalition of leaders in various leadership roles. Along the way any competing interests were managed and NASA almost achieved its goal announced in a speech by President George W. Bush on January 14th 2004: to use the shuttle to finish the international space station by end 2010. The date was, in fact, March 9th 2011. As Griffin noted at a press briefing in Washington, DC: "NASA simply cannot afford to do everything that our many constituents would like us to do."

Informal leadership

Informal leaders emerge in organisations usually because they have a particular passion or belief and characteristics that engage people in their

cause. These informal leaders are found at any level in the hierarchy because what they spearhead is independent of hierarchy.

Lesson 9 of 18 lessons on leadership

So much for titles and organisation charts

Organisation charts are frozen, anachronistic photos in a workplace that ought to be as dynamic as the external environment around you. If people really followed organisation charts, companies would collapse. In well-run organisations, titles are also pretty meaningless. At best, they advertise some authority, an official status conferring the ability to give orders and induce obedience. But titles mean little in terms of real power, which is the capacity to influence and inspire. Have you ever noticed that people will personally commit to certain individuals who on paper (or on the organisation chart) possess little authority, but instead possess pizzazz, drive, expertise, and genuine caring for team mates and products?

Source: Colin Powell, former US secretary of state

Patricia Pearce and Derek Pereira are former BA cabin crew who in 1986 decided that they would find a way to fly sick children to Disneyworld on a dream flight and persuaded BA to support them in this venture. Today Dreamflight is an independent registered UK charity, still enjoying considerable support from BA, which sends one full flight of children on their Dreamflight each year. Sir Cliff Richard, patron of Dreamflight, says:[16]

> *If anyone has any doubts about the value and impact of the Dreamflight charity on the lives of sick children, they should watch the faces of youngsters boarding a BA 747 for their trip of a lifetime to Disneyworld in Florida.*
> *I'm always humbled by their courage and inspired by the selflessness and compassion of so many of BA's staff and other escorts who give up their leave to accompany these children.*
> *I've often said that I find involvement with a charity often brings me far more than I could ever offer. Unarguably, that's true of Dreamflight.*

This early venture into what is now called corporate social responsibility

paved the way for the current design of BA's One Destination corporate responsibility programme, which supports an extensive and wide-ranging portfolio of work in four areas: environment; local communities; diversity and inclusion; health and well-being. In 2012, for example, as part of this portfolio, BA introduced a disability assistance programme, raised £1.2m for the Flying Start charity and launched its first One Destination carbon fund project. In her book *Tempered Radicals,* Debra Meyerson describes people such as Pearce as wanting "to rock the boat and to stay in it".[17] She describes four approaches that they use to lead change:[18]

> *Most subtle is "disruptive self-expression" in dress, office décor, or behavior, which can slowly change an unproductive atmosphere as people increasingly notice and emulate it. By using "verbal jujitsu" an individual can redirect the force of an insensitive statement or action to improve the situation. "Variable long-term opportunists" spot, create, and capitalize on short- and long-term chances for change. And through "strategic alliance building" an individual can join with others to promote change with more force. By adjusting these approaches to time and circumstance, tempered radicals work subtly but effectively to alter the status quo.*

Informal leaders muster support not only by their approach (in the Dreamflight example using strategic alliance building), but also by their use of referent power (which derives from the belief that people have in them after seeing them in action) and their personal characteristics. These include:[19]

- support of subordinates;
- intolerance of poor quality;
- lack of political orientation;
- high regard for competence;
- admission of error and failure;
- standing up for values and beliefs;
- outspokenness and candour;
- high ethics and integrity;

- calmness and effectiveness in crises;
- sharing of victories and a sense of fair play;
- ability to influence without authority.

Whistleblowers – those who expose misconduct in the workplace – share these characteristics and also have the power to change the design of the organisation. However, they usually find that they are not able to rock the boat and stay in it. Transparency International is an organisation whose purpose is to promote responsible whistleblowing and adequate protection of whistleblowers. It is well aware that whistleblowers face harassment, retaliation, blacklisting, threats and sometimes physical violence, and with legal experts across the world it works:[20]

> *To implement and strengthen whistleblower protection laws, make sure these laws are ably put into practice, raise public awareness of the importance of whistleblowing, and to enhance the perception of the people who risk their livelihoods and sometimes their lives to expose corruption [and wrongdoing].*

Exposing organisation malfeasance may well be better led by an outsider. Erin Brockovich, an administrator at a law firm, helped run a campaign that led to Pacific Gas and Electric (PG&E) paying $333m in compensation to the families of those who had suffered illness and death as a result of PG&E's pollution of land around its gas compressor station in Hinkley, California. PG&E also had to clean up the environment and stop using chromium 6, the cause of the pollution. By contrast, Karen Silkwood, who led a campaign against her employer, Kerr-McGee, a plutonium fuels producer, ended up dying in a car crash in 1974. This was the subject of much speculation, as she was in the middle of collecting evidence for the union to support her claim that Kerr-McGee was negligent in maintaining plant safety, and at the same time was involved in a number of unexplained exposures to plutonium. The plant closed the year after her death.

Informal leaders can initiate new organisation design work by their actions or they can intervene in an already initiated project. To achieve their goals, they use predominantly referent power combined with an approach and a set of characteristics that enable them to muster support without jeopardising their position.

Being able to influence without authority is at the heart of informal leaders' ability to get what they want. This is often tricky in difficult situations where, for example, there is no opportunity for a second chance, or there is a lot of resistance from another person or group. In these instances a systematic approach to influencing helps (see Figure 7.2).

Table 7.3 gives an example of the model in action. Ellen Thomas, a young African-American consultant, was given advice by her mentor, Joe, to unbraid her long cornrow braids before giving a high-profile public presentation. She interpreted this as meaning that she was to "look as white as possible".

FIG 7.2 **Summary of the Cohen-Bradford model of influence without authority**
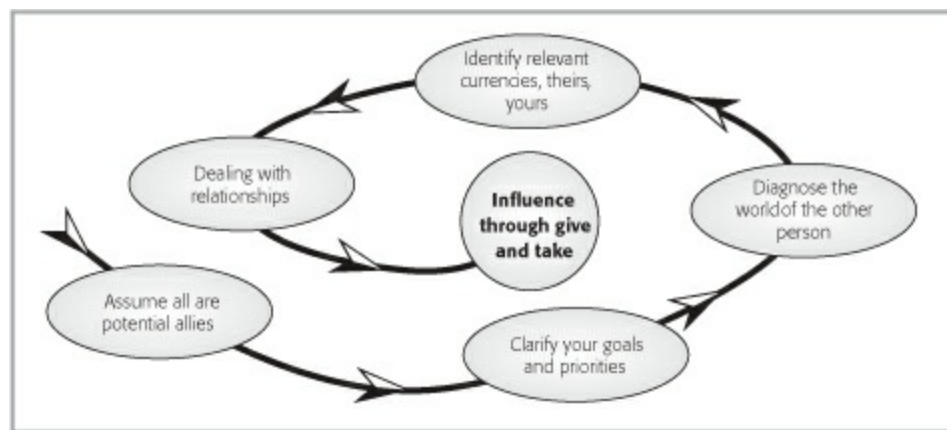
Source: Cohen, A.R. and Bradford, D.L., "The Influence Model: Using Reciprocity and Exchange to Get What You Need", *Journal of Organizational Excellence*, Winter 2005

Working together

Collaborative working, where people feel good about their interactions and the results they produce, is hard to achieve. Whatever the mix of formal and informal leaders in an organisation design project, the barriers to good outcomes are the same: territorial game playing, poor decision-making, the tendency to make assumptions, seeing things from only one perspective and failing to learn. Removing these is an imperative.

Territorial game playing

Who does not recognise that survival games are played in organisations? Joseph Heller exposes these brilliantly in his book *Something Happened*.

Here is an extract from the chapter "The office in which I work":[21]

People in the company, for example, do their best to minimise friction … It is considered much better form to wage our battles sneakily behind each other's back than to confront each other directly with any semblance of complaint … We are all on a congenial, first name basis, especially with people we loathe. … The right to this pose of comfortable intimacy does not extend downward.

TABLE 7.3 **Influencing without authority**

Ellen knew it was a risk to ignore Joe's advice, but her hair was too tied to her sense of self to give in.	1 Assume all are potential allies It is easy to leap into an adversarial mode but imagine, instead, that things can be worked out in partnership or by forming an alliance. (Allies here are both Joe and the people she was presenting to.)
After some thought, Ellen was able to see this encounter as a test not just of her willingness to conform to fit this definition, but of the institution's willingness to adapt to the reality of its diverse workforce. She realised she had choices. This incident posed an opportunity to challenge Joe's biases and to help him appreciate the connection between this concrete incident and the organisation's espoused promise of valuing diversity.	2 Clarify goals and priorities There are usually several options, possibilities and choices in any situation. Think carefully about the trade-offs, cost benefits and outcomes of each of these. Depending on priorities it may, for example, be better to lose a battle and to win the war.
Ellen prepared for her presentation and delivered it with unimpeachable authority. She wore her hair in neat cornrow braids and dressed in a new conservative business suit … She knew she succeeded in conveying expertise; she also hoped that … she signalled to others that professionals come in many different packages.	3 Diagnose the ally's world This means finding out what the other person cares about and seeing the world through their eyes. Someone who sees an organisation as a political system will have a very different perspective from a person who sees an organisation as a psychic prison.
She wanted to make sure her mentor learned something from this, but not in a	4 Identify relevant currencies People value and "trade" in different

way that jeopardised their relationship or put him on the defensive. Immediately following the presentation Ellen thanked Joe for caring enough to give her advice and gently asked him if he knew how it had affected her. As she suspected, he did not, and he asked her to explain. Ellen described why her hair was not just about "style", and why to her, it was emblematic of her ethnicity. She let him know that she understood that he had not meant to offend her. She then explained that she chose this company because she thought it would accept her as a black woman.

things and these can become bargaining chips in an influencing exchange.

5   Deal with relationships
Cohen and Bradford describe this as having two aspects: the nature of the relationship – positive, neutral or negative – and the way each participant wants to be related to.

6   Influence through give and take
Once someone knows what they want, what the desired relationship is, and what currency is available to trade in then the exchange can take place.

She diverted the issue away from hairstyle and appearance to the much broader issues of the existing parameters of fitting in and the company's willingness to expand its implicit definitions of professionalism.

The result of this was that Ellen began to be known in the organisation as an informal leader of diversity issues

Source: Meyerson, D.E., *Tempered Radicals*, p. 66

Territorial games interfere with getting work done effectively. They cause bad feeling, poor-quality decisions and defensive behaviour. Yet there is great reluctance to expose and discuss game playing openly.

Overcoming this reluctance is the first step to understanding territorial instincts and choosing to work in more productive ways. The more people learn about the games they play the less effective destructive gamesmanship is (see Understanding your territorial drive, Table 7.5 below).

Poor management of agreement

Commitment is assumed when people publicly say they agree to a decision or course of action. (Sometimes they remain silent when asked if they agree and this is taken as tacit agreement.) If they have reservations about the decision but for various reasons are not willing to raise them, all sorts of problems can arise. The Abilene Paradox is a good illustration: a group makes a decision to drive for several hours to have dinner in the town of Abilene, but when they return it transpires that no one wanted to go but no individual was willing to

say so. This paradox is commonly seen in organisations and results in loss of motivation and productivity.

TABLE 7.4 **The DESC process**

Describe how you feel	I want to talk to you about the project. I know we all, including myself, have been going along with it so far, but I don't think it's going to work, and I am anxious about it. I am concerned that I may end up misleading you and we may end up misleading one another.
Explain what you think are the causes	I think I've felt pressured to pursue a course of action because I'm fearful of reporting what our sponsor may not want to hear.
	I'm conscious that the reputation of the organisation is riding on this new design and we're in the public eye to deliver on it.
Suggest various options on ways forward	We can continue to go along a path that I think is likely to end in disaster.
	We can discuss options and see if there are ways we can make it work.
	We can recommend pulling the plug on it now if that makes the best sense.
Come to an agreement on how to proceed	I'd like to know where the rest of you stand and I would appreciate any thoughts about the project.

The DESC process is a structured way of helping people to own up to and discuss misgivings they have about decisions that have been made or are about to be made (see Table 7.4). But someone has to take the first step.

The tendency to make assumptions

Making an assumption is presuming or believing something is true without first asking questions to determine if it really is. This has the effect of blocking thinking and/or shutting down possibilities. Often people do not know that they are making an assumption until they are questioned about it, but once the assumption is challenged new options emerge that allow people to move forward in more positive ways.

"These young people are smart, but in ways that can be dangerous.

They're so sure they're right."[22] Imagine the effect that this assumption might have if the "owner" of it were working with younger people on the team. A good, well-received challenge will open up the doors to new ways of collaboration.

Seeing things from only one perspective

During 2005 HSBC, a banking and financial services organisation, launched a global advertising campaign, "Your Point of View", in airports. It consisted of a series of two photos repeated once to form a four-photo set illustrating opposing perspectives of the same thing. For example, one set had a laptop labelled as "work" and a baby labelled as "play". The photos were repeated but the labels were switched, with the laptop labelled "play" and the baby labelled "work". A statement on the related website that was live at the time pointed out:

> As the world gets more and more the same, we can each value other's opinions, however different they may be.

In 2008, HSBC followed this campaign with another, "Different values", based on its global premise that "different values make the world a richer place". In this campaign a single image was repeated three times, with a different one-word interpretation imposed over each photo. For example, in one, the words "style", "soldier", and "survivor" overlaid the photo of the back of a gender-neutral shaved head.

Leaders should heed this premise: empathy goes a long way towards working co-operatively and there are many popular advocates urging people to work hard at understanding the other person's point of view and values and suggesting ways of doing this.

Failing to learn is learning to fail

Well-structured organisation design projects have review points built into their management process. Even so, mistakes are repeated and lessons are not learned. During the 1990s many companies spent time and effort in trying to become learning organisations, but there is little evidence that any achieved this (or consensus on what it would look like if they did).

Similarly, five years after the 2008 global financial crisis there was some

evaluation of what had been learned that might help to avert a similar crisis in future. The consensus view was probably accurately reflected by the Canadian Conference Board:

> *We have learned the lessons on how to respond to a crisis – apply selective monetary and fiscal stimulus when required, and organize a globally co-ordinated effort. However, the lessons have not been learned when it comes to preventing a crisis – modernization and implementation of strong financial sector regulation, and limiting the impact of systemic risk created by very large firms.*

Nevertheless, making every effort to learn during the course of a project means that there is less likelihood of having a major failure at the end of it. There are all sorts of small and informal ways to encourage learning, not just from mistakes and failures but during the normal course of working life. Look out for them. Ask yourself: What have I learned from this experience? What could I do differently next time?

CASE STUDY 6

CTC: design of the critical infrastructure protection practice

CTC International, a publicly quoted company, was founded by Miles Huberman to offer IT consulting services. After two decades of steady growth, the company adopted a much more aggressive, primarily acquisition-based growth strategy. Six firms were acquired over the next five years, taking employee numbers from around 1,000 to 4,500 and annual revenue from $312m to $882m.

Each of the acquired companies had some expertise and leadership in infrastructure protection (one of the IT consulting services), but no overall leader of a specific infrastructure practice emerged within CTC. Therefore the organisation as a whole did not benefit from the critical infrastructure protection (CIP) knowledge and skills of the individual firms. Customers were confused because the acquired organisations were reluctant to shed their pre-acquisition identities, continuing to refer to themselves by their original company name, and using their methodologies and operating according to their own philosophies and principles. As a result of this lack of coherence, CTC under-leveraged its CIP.

CTC was spurred into acting only when it unintentionally and unknowingly

submitted two different proposals to a request from a potential client. The conflict was highly embarrassing and damaging to CTC's reputation, so experts representing the parent company and each of the six acquisitions met to figure out how to work together in a more efficient and co-ordinated way. The immediate concern was to avoid such overlaps in the future, but the overall goals of the discussion were to provide clients with higher-quality work, win new business, develop business opportunities, increase revenues and strengthen the group's reputation.

An initial stumbling block was determining who to invite to the meeting. There was no common definition for CIP, as people used a number of terms to describe work that fell broadly in the area. There was no way of searching employees' CVs for key words that would pinpoint people with the relevant skills and experience. And few people knew others outside their own immediate network (which tended to be limited to their original company) who they could recommend.

However, informal networks, referrals and getting the word out enabled a list of people to be drawn up. They were sent a one-page outline of the current CIP situation, preliminary thoughts on what the future could look like and some reasons for working towards this. This caused a flurry of queries and comments that were coloured with a mixture of hostility, curiosity and appreciation for the effort to bring people together. It also flushed out a handful of people not on the list who felt they ought to have been.

The 36 people eventually invited from the parent company and the six acquired companies included a senior vice-president of CTC and 13 vice-presidents. Some invitees led programmes, projects, or business divisions/units and others were leaders by virtue of their specialist expertise. The organisers suggested that the outcome of this meeting would be agreement on the value that a CIP practice would bring to CTC and a sketch of the design of such a practice (if it was agreed that it would bring organisational benefits).

On the day 17 people attended and the meeting facilitator knew they had:

- as well as formal leadership roles, a variety of informal leadership roles, related to factors such as their length of service in the company, their social networks, their positions on external committees and boards;
- access to different sources of power;
- competing loyalties – to CTC, to their original company (which had been acquired by CTC) and to their clients;
- conflicts of individual interests (personal, career and what each wanted as meeting outcomes);
- assorted ways of playing territorial games.

Talking about the meeting after the event, one of the vice-presidents remarked:

For me, one of the positives of the meeting was simply to extend my network. Even though I've been with CTC for 20 years and thought I knew everyone relevant to CIP, the introductions exposed some gaps. I don't think I've kept up with who we got in the acquisitions. We've got far more expertise at our disposal than I was aware of. It's certainly helped me think more carefully about ways of using our strengths more effectively.

I see the strengths as being a blend of policy, functional and technical expertise, which is also geographically dispersed and covers a broad customer base. The challenge is knitting this into a recognised CIP practice if that's an appropriate thing to do. It's something I would like to see happen, and to be blunt I'd like to head it.

Another participant involved in business development noted:

CIP is a wide-open field of expanding opportunities and if we don't get organised and co-ordinated as a company someone else will market themselves and establish their brand of "CIP expert" with our customer base.

We're suffering because we're not cohesive in our offering. To be frank, my job would be a lot easier if we could agree on a definition of CIP. We could then design a practice along the definition. This would mitigate the current risk of missing business opportunities because we are fractured in our organisation and don't have any shared or repeatable CIP processes across CTC. The current lack of integration means that we approach CIP with "small hat thinking" based on the clients we had before we were acquired by CTC rather than with "big hat thinking" – aiming for the clients we should be targeting if we took a whole CTC view.

A third person, involved in bids for work, had another perspective:

In an ideal state we'd know who all our clients are and what we're doing for them. We'd be up in front of the Request for Proposal process to make sure we are helping the client create it. We'd have access to viable performance qualifications and past experience and know the leads on similar projects. We'd share best practices through a knowledge management system and have a robust governance structure in place.

Currently my job is a nightmare. We don't know what proposals have a CIP component because there isn't a single point of entry, and beyond that it's very difficult to find the right people to contribute to the proposal-writing effort because there's no CIP rallying point, regular routine connection, or usable information to draw from. I'm all in favour of having some form of CIP organisation initially. It could be a loose confederation (there are lots of egos to contend with, so I don't want to suggest anything that will provoke turf battles) with centralised co-ordination. I'd like to see a design that's not too heavy on process but enough for me to be able to get the information I need to be able

to write and deliver high-quality proposals to our clients.

The independent meeting facilitator reflected on some of the obstacles to achieving the goal of designing a CIP practice:

It seemed to me that people clearly articulated the value of having a better way of doing CIP client work and this led to a number of actions being suggested, all based on the notion of some form of CIP practice. The acid test will be if people are willing and able to put resources into making something happen. All too often this sort of talk results in either "strategic non-compliance" – that is, people agree to take action when they actually have no intention of taking it or are trying to buy time in order to find a way to avoid taking it – or "the invisible wall game" when people start to prevent progress that to their minds invades their territory whether that is business area, expertise, or something else.

Here, we had in the room a number of leaders. My guess is that several of them are jockeying for the position of CIP "point person" although only one has come right out and declared his hand. This means that individually they'll be using their various power sources to form a coalition to support their interest in being the CIP practice leader. This could be fine if they were all more transparent about declaring their ambition – it would help avoid some of the mud-slinging that goes on in these types of undercover power play situations. Outside this meeting, for example, I've heard some of them openly cast doubts on the abilities of some of their peers to take on the leadership role.

Even without individual interests being brought to bear, they'll find it difficult to collaborate on forming a CIP practice while they're also expected to compete in other arenas. The performance management system (both individually and organisationally) does not reinforce or reward the collaborative work which is required for designing a CIP practice. For example, the focus on billable time means that non-billable work – which this is – will take a much lower priority on their task lists than billable work.

Could a viable CIP practice be designed? Of course, and I'm optimistic that it will be. They've identified their ideal state and they've found a common enemy in the potential for a competitor company beating them into the CIP expert space. Remember Aesop's fable:

"On a hot, thirsty summer's day a lion and a boar came to drink at a small spring. They started quarrelling over who should drink first and provoked each other to near mortal combat. But stopping for a moment to take breath, they looked round and saw vultures waiting to devour whichever of them was killed. The sight made them stop their quarrel. 'It is better for us to be friends,' they said, 'than to be eaten by vultures.'"

My feeling is that within 12 months you'll see a well-designed and highly performing CIP practice.

Reflections on the case study

This case illustrates leaders in an organisation starting to work on designing a new sphere of operation for the company. As is common in organisations, the design is being considered against a backdrop of many factors: there are several formal leaders with a vested interest in the game and each has at his disposal a variety of sources of power. These formal leaders want different things from a CIP practice: some want to lead it, some want to guard their existing client relationships, and some want to develop its reputation and expertise in specific aspects of CIP. None of these are mutually exclusive in a final design. But the leaders are faced with the usual challenges of balancing the work of designing a new area with the demands of their consulting day jobs, which require them to maintain high levels of billable client work. Inevitably, the design process sparks various types of turf-protection behaviour, which could slow down or halt the intention to form a new CIP practice. Behind the scenes are the internal informal leaders and the other internal and external stakeholders who are likely to emerge as the design work proceeds. At this stage, to keep the formal leadership of the design process flowing, the facilitator recommended several actions:

TABLE 7.5 **Understanding your territorial drive**

Territorial game	Used on you	Used by your peers	Used by your boss	Used by you
Occupation: Marking territory; maintaining an imposing physical presence; acting as a gatekeeper for vital information; monopolising relationships, resources or information				
Information manipulation: Withholding information, putting a spin on information, covering up, or giving false information				
Intimidation: Growling, yelling, staring someone down, scaring off, or making threats (veiled or overt)				
Powerful alliances: Using relationships with powerful people to intimidate, impress, or threaten others; using name dropping; making strategic displays of influence over important decision-makers				
Invisible wall: Actively instigating circumstances or creating counterproductive perceptions so that an agreed-upon concept is, if not impossible to implement, very, very difficult to implement				
Strategic non-compliance: Agreeing upfront to take action and having no intention of taking that action, or agreeing just to buy time to find a way to avoid taking that action				
Discredit: Using personal attacks or unrelated criticisms as a way of creating doubt about another person's competence or credibility				
Shunning: Subtly (or not so subtly) excluding an individual in a way that punishes him or her; orchestrating a group's behaviour so that another is treated like an outsider				
Camouflage: Creating a distraction, emphasising the inconsequential, or deliberately triggering someone's anxiety buttons just to distract him or her				
Filibuster: Using excessive verbiage to prevent action, out-talking any objectors at a meeting, talking until the time for discussion is exhausted or simply wearing others down by out-talking them				

Source: Simmons, A., *Territorial Games: Understanding and Ending Turf Wars at Work*, Amacom, 1998

- Putting together a smaller leadership team to drive the design work

(bearing certain considerations in mind). In most cases it is difficult to get agreed actions initiated and followed through if the team is bigger than six people. However, the six people have to form a balance of capability to work successfully. A group of six "shapers" and no "evaluators",[23] for example, will struggle to carry through the design.

- Determining team operational processes, such as decision-making or conflict handling. Too frequently leaders foul up by having knee-jerk reactions, making intuitive decisions, getting heated, and so on. Having some simple processes or ground rules allows more considered discussions when the going gets hard.

- Engaging the formal leaders in open discussions about aspects generally relegated to the "too difficult" box. Even with established operational processes or ground rules it is worth setting aside time to reflect on the team process – sharing leadership, territorial games, power sources and the capabilities team members need to collectively exhibit. Leaders have very different motivations, interests and expectations and it helps oil the wheels if people discuss their ways of approaching the job.

Tools for the case study
Understanding your territorial drive

Acknowledging the games people play to protect their territory helps stop the unco-operative and partisan behaviour that often accompanies organisation design work. One way of doing this is to use Table 7.5 as a framework for discussion within the leadership groups.

BATNA[24]

BATNA stands for best alternative to a negotiated agreement. A BATNA is critical to negotiation because a good decision about whether to accept a negotiated agreement can only be made when the alternatives are known. If the proposed agreement is better than the BATNA, accept it. If the agreement is not better than the BATNA, reopen negotiations. If the agreement cannot be improved, think about withdrawing from the negotiations and pursuing the alternative – though also consider the costs of doing that.

BATNAs are not always readily apparent but may be determined for any

negotiation situation. Roger Fisher and William Ury outline a simple process for determining your BATNA:[25]

- develop a list of actions you might conceivably take if no agreement is reached;
- improve some of the more promising ideas and convert them into practical options; and
- select, tentatively, the one option that seems best.

Complex situations require the consideration of a broader range of factors and possibilities. For example, a community in the US discovers that its water is being polluted by the discharges of a nearby factory. Community leaders first attempt to negotiate a clean-up plan with the company, but the business refuses to agree on a plan of action that satisfies the community. In such a case, what are the community's options for trying to resolve this situation? They could:

- sue the business based on stipulations of the Clean Water Act;
- contact the Environmental Protection Agency and see what sort of authority the agency has in such a situation;
- lobby the state legislature to develop and implement more stringent regulations on polluting factories;
- wage a public education campaign and inform citizens of the problem. Such education could lead voters to support more environmentally minded candidates in the future who would support new laws to correct problems like this one.

In weighing these various options to see which is best, the community members must consider a variety of factors:

- Which is most affordable and feasible?
- Which will have the most impact in the shortest amount of time?
- If they succeed in closing down the plant, how many people will lose their jobs?

These types of questions must be answered for each option before a

BATNA can be determined in a complex environmental dispute such as this. Consider too the options available to the other side.

Third parties can help disputants accurately assess their BATNA through reality testing and costing. In reality testing, the third party helps clarify and ground each disputing party's alternatives to agreement.

Summary

Specific knowledge of sources of power, territorial games, the way informal and formal leaders interact and the barriers to collaborative working all help leaders get to successful design implementation. But this technical knowledge is not enough. Leading organisation design projects also takes guts and a great deal of awareness – of self and of others – to carry things through, keep on learning, admit fallibilities and deal with consequences.

Wayne Hale, who retired from NASA in July 2010 after 32 years' service, sent an e-mail to staff in which he described his world of leading space projects – any organisation design leader will echo them:[26]

> *I have given the Go 28 times. Every time was the toughest thing I have ever done. And I have never ever been 100% certain, it has always been gray, never a sure thing. But the team needs to have confidence that the decision was good. It is almost a requirement to speak the words much bolder than you feel, like it is an easy call. Then you pray that you were right.*

8 Culture and group processes

Organisation doesn't really accomplish anything. Plans don't accomplish anything, either. Theories of management don't much matter. Endeavors succeed or fail because of the people involved. Only by attracting the best people will you accomplish great deeds.

Colin Powell, former US Secretary of State

IN MOST CASES a "visioning" process kicks off an organisation design project. In these sessions executives and others gather to "blue-sky" the new organisation design, describe the ideal future state, and lay plans for becoming the "best we can be".

In these and subsequent sessions the cultural and group processes – typically the hidden dangers that block the route – are not discussed. Because they are caught up in the mindset of the "infinite possibility", participants choose not to acknowledge that the path between the current state and their desired future state is perilous and that they are often ill-equipped to take it. Unless design leaders ask and answer the sorts of questions listed below, they will be exposed like those F. Scott Fitzgerald describes in *The Great Gatsby* as careless, smashing up things and then retreating to "let other people clean up the mess they had made":

- How much is organisational design success dependent on factors such as local culture (both national and organisational) and human factors such as personalities?
- What specific aspects of an organisation's culture get in the way of a change process? How are these tackled?
- Are group processes – decision-taking, making sound judgments and managing consequences – effective?

Getting the cultural and process aspects of an organisation design journey right is challenging. Ernest Shackleton's advertisement for men to

accompany him to the South Pole in 1914 on the *Endurance* was rather different from the vision statement of most organisation design projects:[1]

Men Wanted for Hazardous Journey, Small Wages, Bitter Cold, Long Months of Complete Darkness, Constant Danger, Safe Return Doubtful. Honour and Recognition in Case of Success.

In mid-trip the *Endurance* was crushed by ice. Circumstances necessitated a complete new organisation design, including a change of purpose. (Some would say at this point that their project had failed because it did not achieve the intended mission. However, it illustrates the point that failure is relative and must adapt to circumstances.) In the event and after months of enduring staggeringly harsh conditions, the 28-man team under Shackleton's direct command returned safely.

To achieve this took strong group processes and a robust, well-functioning organisation culture. Indeed, Shackleton's report of the trip mentions only the positive aspects of these: friendly football games on the ice, and so on.[2] However, Kelly Tyler-Lewis, writing about the expedition's base-camp party (members of whom did not accompany Shackleton's team), suggests a less rosy picture:[3]

Shackleton's lack of clarity about the chain of command pitted Mackintosh against his subordinate, Ernest Joyce. "I have never in my experience come across such an idiot in charge of men!" Joyce wrote, while refraining from outright mutiny.

Both perspectives are probably right. However, imagine the likelihood of expedition success if group members had started with less of an idea what they were letting themselves in for and then:

- blamed someone else for the situation they were in (a blame culture);
- wanted to hear only good news (a denial culture);
- refused to discuss aspects of the expedition (the shadow side of the organisation);
- were unable to make quick decisions;
- failed to solve the problems they faced;

- escalated rather than managed conflicts;
- commented on social media about the problems and conflicts.

One or more of these seven factors commonly blocks an organisation design implementation. (Note that the first three relate to the culture of the organisation and the next four to group processes.) Clearly, there are other blockers and some are discussed in previous chapters – for example, leadership issues or stakeholder concerns – but realistic appraisal of aspects of culture and group process followed by effective management of them goes some way towards achieving either the desired outcome of an organisation design or being successful in its failure.

Shackleton acknowledges as much in the closing section of *South*:[4]

That we failed in accomplishing the objective we set out for was due, I venture to assert, not to any neglect or lack of organisation, but to the overwhelming natural obstacles … To the credit side of the Expedition one can safely say that the comradeship and resource of the members of the Expedition was worthy of the highest traditions of Polar service; and it was a privilege to me to have had under my command men who, through dark days and the stress and strain of continuous danger, kept up their spirits and carried out their work regardless of themselves and heedless of the limelight.

This chapter looks at three aspects of organisational culture – blame culture, denial culture and the shadow-side culture – and then at three group processes – making decisions, solving problems and dealing with conflict.

Organisational culture

It is surprising how few of the organisation design models shown in Chapter 2 specifically mention culture. They focus on aspects of organisation design that are explicit, whereas much about culture is implicit and difficult to describe because it is socially construed and manifested in norms, behaviours, expectations and "the way we do things round here". Nevertheless, as Edgar Schein says in *The Corporate Culture Survival Guide*:[5]

Culture matters. It matters because decisions made without awareness of

the operative cultural forces may have unanticipated and undesirable consequences.

Thinking about organisational culture at three distinct levels as shown in Table 8.1 makes it easier to gain awareness of the operative cultural forces that affect new organisation design implementation.

TABLE 8.1 **Three levels of culture**

Artefacts and behaviours	This is the observable level of culture, which consists of behaviour patterns and outward manifestations of culture: perks provided to executives; dress codes; who gets the latest technology device; and the physical layout of work spaces. All may be visible indicators of culture but difficult to interpret.
Espoused values	Values underlie and to a large extent determine behaviour, but they are not as directly observable, as behaviours are. There may be a difference between value statements that organisations make and the values people use from day to day. People attribute their behaviour to underpinning values.
Assumptions	Assumptions derive from values, which are difficult to identify as they are taken for granted and drop out of awareness. People may be unaware of or unable to articulate the beliefs and assumptions forming their deepest level of culture.

Source: Schein, E.H., *Organisational Culture and Leadership*, 3rd edition, Jossey-Bass, 2004

Organisation design work has a good chance of success when cultures are aligned, collaborative and open at all three levels. For example, in 2000 MicroStrategy, a builder of business intelligence software, was forced into a design change following an investigation by the US Securities and Exchange Commission.

MicroStrategy: a forced organisation design change

Nearly every element of MicroStrategy's business model has been subjected to

scrutiny and forced to change. But amid these deep-seated strategic reforms, one element of the organisation has remained intact so far: its equally deep-seated culture and values.

The fact that most employees were able to keep their heads, even as some heads were rolling, confirmed for Michael Saylor, the CEO, that for all their mistakes, he and his senior colleagues had done one important thing right. Their obsession with building a sense of shared purpose, their commitment to schooling all of their people in the big-picture vision behind the company's business, and their willingness to spend millions of dollars and hundreds of hours of time to create a sense of shared responsibility had become the glue that held things together.

Saylor said:

The past 12 months have really shown that culture is by far the most important thing in a company. If we had constructed a culture that was based solely on stock price or on prestige, there wouldn't be a reason to be here now. At the end of the day, the thing that drives people through all of this pain and turmoil is the belief that the world is a better place because of what they do.

In 2014 Saylor was still CEO, and the company has become a leading player in the field of enterprise business intelligence software.

Sources: Salter, C., "Updating the Agenda: MicroStrategy Inc.", *Fast Company*, May 2001 (www.fastcompany.com); Evelson, B., "The Forrester Wave: Enterprise Business Intelligence Platforms, Q4 2013", December 18th 2013 (www.forrester.com)

Cultures that are misaligned – for example, where there is a statement of values but these are not seen in practice, or are not open, for example where there is finger-pointing and back-biting – must be changed as part of the organisation design process if there is to be any chance of success.

Culture change is easy to effect at one level, for example changing the dress code, or giving everyone the same size of office or workspace. Changing behaviour is harder and takes time, patience and resilience – as anyone with children (or dogs) knows. A TV series *Super Nanny*, first shown during 2004, provided a model for behaviour change that organisation designers could well learn from:[6]

Her simple methods stress consistency, communication and reasonable consequences for poor behaviour, all delivered with loving firmness. She

emphasises the importance of spelling out the new rules of the household to children in advance, as well as explaining the consequences for infractions. She also candidly points out to parents where they need to be more decisive, more flexible or even how they may need to adjust their expectations of a child's readiness for certain behaviours.

However, it gets progressively more difficult to change espoused values and assumptions, and it is at these levels that culture change is either not addressed in organisation design projects and/or fails to take root. Three types of culture that are particularly hostile to new organisation design and thus are essential to change are the blame culture, the denial culture and the shadow-side culture.

The blame culture

Briefly, a blame culture is one where there is a search for someone or something to attribute lapses, mistakes or misdeeds to. In other words, people in a blame culture seek to pin responsibility, usually for a wrong action, on someone or something other than themselves.

The example of the response to an internet virus, discussed in relation to a generalised "software culture" similar to that found in many organisations' IT departments, illustrates the fact that blame cultures cost money, cut productivity, hinder innovation and learning, build dysfunctional relationships and stem the flow of good information.

Blame culture: response to an internet virus

This winter [2003], a worm known as Slammer rattled the internet violently enough to become what you might call a "CNN-level virus" – that is, it burrowed its way into the national consciousness.

The old game was to blame Microsoft. "Microsoft did not protect its customers", read a letter to the *New York Times* after the Melissa virus hit in 1999. A year later, after the I Love You virus infected Microsoft Outlook, a *Washington Post* editorial stated: "This is a software development problem."

Slammer, though, hasn't followed the old pattern. A developing consensual wisdom suggests that as woeful as Microsoft's products may be, CIOs have been equally sloppy. A February poll of more than 200 IT professionals, by antivirus company Sophos, showed that 64% of respondents blamed their peers' lax

security practices for Slammer. Only 24% blamed Microsoft.

What frustrates … security experts is the fact that this seemingly intractable problem is actually quite tractable. The tools and strategies to prevent another Slammer are just waiting to be used. In fact, the number of tools and strategies available – and available at a reasonable cost – makes it inexcusable for any CIO to fiddle while the software burns.

There is, after all, $60 billion on the table. A 2002 study by the National Institute of Standards and Technology (NIST) developed that number to describe buggy software's cost to the national economy. Improved software testing alone, NIST suggests, could shave $22 billion off that.

Why can't the software community motivate itself to grab all that cash? The answer lies in software culture.

Source: Berinato, S., "The Bug Stops Here", *CIO Magazine*, May 2003

A similar software blame culture emerged in 2014 when Heartbleed Open SSL, a serious and widespread computer bug, presented security threats to systems around the world. Security researchers at the Internet Storm Centre, operated by the SANS Institute, which monitors the level of malicious activity on the internet, were scathing of Android for the availability of patches being "a little bit less than desired", and said that in many cases it was not the providers of the hardware but rather the telecoms companies that were not being responsible. They were also critical of organisations' lack of communication about their exposure to Heartbleed; banks in particular came under fire.[7]

The three levels of a blame culture typically appear as listed in Table 8.2.

TABLE 8.2 **Three levels of blame culture**

Artefacts and behaviours	CYA (cover your arse) behaviour
	"If at first you don't succeed, remove all evidence you ever tried"
Espoused values	"Eagles may soar high, but weasels don't get sucked into jet engines"
	The secret of success is knowing who to blame for your failures
	No single raindrop believes it is to blame for the flood
Assumptions	People are out to get you

Organisation design projects do not succeed in blame cultures because, inevitably, the project implementation process hits snags, bottlenecks and unforeseen circumstances. Although Shackleton's expedition hit all of these the prevailing culture was not one of blame, illustrating the point that in difficult conditions success relies on a culture of being accountable and taking responsibility. People know that "the buck stops here" and are able and confident to admit to errors, work with the situation as it is and learn from it, not waste time and energy casting around to find someone to scapegoat.

In 2014 Mark Rogers was appointed CEO of Birmingham City Council with a brief to manage a business transformation that saved £822m from Birmingham's budget, sell off the flagship National Exhibition Centre, reduce the workforce of 59,000 people by 1,000 jobs during the year and generally to turn around the huge organisation pretty quickly.

He began well by writing a blog on why he took the job and has written regularly from the start. After two months in post he wrote about how he intended to lead by demonstration of Birmingham City Council's values (empathy, respect and trust), saying:[8]

> *I believe passionately that it is entirely possible for a very large council such as ours to lead with its values, but previous experience tells me that, to succeed, we all need to deliver on a small number of key approaches. For starters, therefore, I expect colleagues to sign up to two key ways of working: active distributed leadership; and a positive commitment to self-awareness and courageous conversations.*
>
> *Active distributed leadership is all about you (and me) taking responsibility for promoting and living the values of the council. This is not someone else's business; it's ours. I can't do it all on my own. I need your support and I need you to help me ensure that the values are known and in evidence every day. And where they're not, do something about it.*

With this marker he began the turnaround from a command-and-control culture with people unwilling to take responsibility and willing to apportion blame. It is too early to tell whether he will succeed, but so far, as one

employee noted:

> *Everyone is talking about the blog and his style of management as "refreshing" and "just what we need". Mark is going down well with people who don't subscribe to command and control as the default organisational norm. I think time will tell if he is able to cut through the organisational machine … [but] I am hopeful.*

The denial culture

Similar to a blame culture is the denial culture. Here people refuse to listen to the operational realities of a situation that is not going as planned. The three levels of a denial culture are illustrated in Table 8.3.

Denial cultures often reflect the need of leaders to have their image of themselves as successful leaders bolstered. Consequently, people in these cultures are not valued for their success in their jobs but for their ability to provide evidence that things are going well, do deals and make their superiors look good. Typically, senior executives are unwilling to hear anything which suggests that there are problems.

Bob Woodward, in his book *State of Denial*, illustrates this culture in action in his description of Jay Garner, head of the Iraq Postwar Planning Office, meeting President Bush:[9]

> *Of course with all the stories, jocularity, buddy-buddy talk, bluster and confidence in the Oval Office, Garner had left out the headline. He had not mentioned the problems he saw, or even hinted at them. He did not tell Bush about the three tragic mistakes. Once again the aura of the presidency had shut out the most important news – the bad news.*
>
> *It was only one example of a visitor to the Oval Office not telling the president the whole story or the truth. Likewise, in these moments where Bush had someone from the field there in the chair beside him, he did not press, did not try to open the door himself and ask what the visitor had seen and thought. The whole atmosphere too often resembled a royal court, with Cheney and Rice in attendance, some upbeat stories, exaggerated good news, and a good time had by all.*

In another example, a hospital assessor reports:[10]

One of the things I learnt through ten-plus years of dealing with people who didn't like what we were telling them about their heart surgery results is their first response is to say, "the data's wrong". The second response is to say, "okay, the data's right but your analysis is wrong".

TABLE 8.3 **Three levels of denial culture**

Artefacts and behaviours	Present data selectively to show only the good news
	Push bad news under the carpet
	Dismiss negative findings or make them more palatable
Espoused values	You aren't being paid to do what you believe is right
	Avoid candour
	Remain cocooned
Assumptions	You'll be punished for being the bearer of bad news
	It is a career limiter to discuss difficulties openly
	There's no support for admitting errors or mistakes

This cultural characteristic was one of several uncovered during a public inquiry into massive failings in patient care at two UK hospitals managed by the Mid Staffordshire NHS Foundation Trust. As well as denial, the report discusses bullying, lack of candour, isolation, defensiveness, target driven priorities and persistence in continuing with services known to be deficient. Commenting on one of the report's recommendations, Cathy Warwick, CEO of the Royal College of Midwives, said:[11]

The recommendation to introduce a new duty of candour is an excellent suggestion. We hear far too often from midwives who are genuinely petrified about raising the alarm bell over poor quality of care. They fear that senior managers will come down on them hard simply for raising concerns. We need to transform the culture of the NHS so that midwives and others who need to raise concerns feel happy and secure in doing so. NHS staff must never again be afraid to raise concerns about standards of NHS care. Today must be a watershed for the NHS.

One year after the public inquiry, the Mid Staffordshire NHS Foundation Trust was disbanded and many other hospital trusts, perhaps recognising their

own failings, had redesigned aspects of their organisation. Whether the lessons learned from this event result in long-term change in the denial culture typical of the NHS remains to be seen. Judith Smith, head of policy at the Nuffield Trust, which produces health-care research and policy analysis in the UK, says:[12]

Our research suggests there has been a genuine change within the leadership of hospital trusts towards more awareness of and openness about quality of patient care.

The real test will be whether this can persist in the face of financial and other pressures. Will we eventually look back on 2013 as the start of a new era in high quality care, or as an interruption in a system that could never quite bring itself to put patient experience first?

The shadow-side culture

In his book *Working the Shadow Side*, Gerard Egan defines the shadow-side culture as:[13]

All the important activities and arrangements that do not get identified, discussed, and managed in decision-making forums that can make a difference. The shadow side deals with the covert, the undiscussed, the undiscussable, and the unmentionable. It includes arrangements not found in organisational manuals and company documents or on organisational charts.

Although it appears from this definition that there is something wrong about the shadow side, this is not necessarily the case. And characterising the shadow side in terms of three levels of culture is not helpful as it does not exhibit in that way. A better way is to think of the organisation's culture as being a brain with a left and right hemisphere: the left being the rational, logical side and the right being the intuitive, and creative. Using this analogy the two sides manifest as shown in Table 8.4.

TABLE 8.4 **Rational and shadow sides of an organisation**

Rational elements (left hemisphere)	Non-rational shadow-side elements (right hemisphere)

Directives	Trust
Strategic plans	Friendships
Organisation charts	Jealousy
Job titles	Fear and insecurity
Policies	Power struggles
Training courses	Ambition
Budgets	Grapevine

Source: "An Introduction to the Shadow Side", www.organisational-leadership.com

Having a shadow side is normal, and organisations are likely to survive best by working with both parts of the brain in the same way that human potential is realised through the whole brain and not through only one hemisphere. Unfortunately, organisation design projects are often initiated and planned using predominantly the rational (left side) of the cultural brain which means that the mess, unpredictability and chaos of day-to-day implementation creates anxiety and lack of confidence in project leaders. Those that have the skills to engage openly in the right side of the cultural brain as well as the left side are more likely to adapt, innovate and find creative solutions as they work on their design.

Group processes

Organisation design work depends on groups of people being able to work effectively together to meet the project's goals. This is easier said than done. Although group members may know what they have to achieve – the outcomes or objectives – they may lack skills to do it. Consequently, groups commonly stall on things like making decisions, problem-solving, handling conflicts, communication and boundary management (which includes obtaining resources, sharing information, admitting people into the group, and relationships between the group and the wider organisation/environment). A meeting at Marks & Spencer when Sir Richard Greenbury was running the company illustrates difficulties on almost all these counts:[14]

> *One of Greenbury's former aides said: "The thing about Rick is he never understood the impact he had on people – people were just too scared to say what they thought. I remember one meeting we had to discuss a new*

policy and two or three directors got me on one side beforehand and said they were really unhappy about it. Then Rick made his presentation and asked for views. There was total silence until one said, 'Chairman we are all 100% behind you on this one.' And that was the end of the meeting."

Knowledge of group process and skill in handling interpersonal dynamics are critical competences for organisation designers because they work with a range of groups including project teams, advisory committees, task-forces, steering boards and stakeholder constituencies. Without the process skills to build confidence, bring people along, generate commitment and help people listen to each other, designers will struggle to make their projects successful.

Reporting annually on what makes IT projects work – and large-scale IT implementations are a common driver of a new organisation design – the Standish Group, a market research firm, has noted that lack of user-group involvement traditionally has been the principal reason for failure. Recognising this, the group developed a one-day workshop called The Six Senses (sight, hearing, touch, smell, taste, instinct), all of which are related to developing group process skills in IT project managers. This is an interesting, touchy-feely foray into a world traditionally associated with geeks and techies not known for their people skills.

First Workshop: Sense of Sight

What is the necessary expertise a project manager needs in development to be able to fully use the sense of sight to improve project management success? Can a project manager see the future and move people and the process in ways without criticizing, condemning or complaining to keep the project moving in the right direction? In this workshop we will work together on this sense to improve the sense of sight and eliminate blind spots.

Source: "The Six Senses of Project Leadership", www.standishgroup.com

---

As well as being skilled in group processes, designers and managers who develop and use the mindset of a critical practitioner as they work will fare better than those who do not. This means:

- being constructively not negatively critical;

- coping with uncertainty and change;
- using knowledge with awareness of personal biases;
- adopting no moral direction, apart from the fundamental professional commitment to social justice for others and empowering, anti-oppressive work.

Developing these skills in critical practice involves five interlocking and overlapping domains. The International Masters Programme in Practising Management (IMPM), a radically different alternative to a traditional MBA, co-founded by Henry Mintzberg, Cleghorn Professor of Management Studies at McGill University and author of *Managers Not MBAs*, aims to develop managers able to:

- manage themselves (the reflective mindset);
- manage organisations (the analytical mindset);
- manage context (the worldly mindset);
- manage relationships (the collaborative mindset);
- manage change (the action mindset).

The critical practitioner mindset should be mandatory for managers in group situations where people have a tendency to do extraordinary things for good or bad. In most cases the good things go largely unrecognised – no news is good news – while the bad things surface, wreaking all kinds of damage. This is cleverly documented in "The Human Behaviour Experiments", produced by Alex Gibney, in which past social psychology experiments are re-enacted and discussed in order to answer questions about why human beings commit unethical acts under particular social conditions:[15]

Why would four young men watch their friend die, when they could have intervened to save him? Why would a woman obey phone commands from a stranger to strip-search an innocent employee? What makes ordinary people perpetrate extraordinary abuses, like the events at Abu Ghraib? … (There is) a fierce debate about just how much the situation – or the system – determines our actions, and how much individual personalities are to blame.

Three situations particularly relevant to management practice in organisation design work are the group processes involved in decision-making, problem-solving and managing conflict, where an experienced critical practitioner can help head off disaster and navigate towards success.

Decision-making

An article in *Harvard Business Review* states:[16]

> *Decisions are the essence of management. They're what managers do – sit around all day making (or avoiding) decisions. Managers are judged on the outcomes, and most of them – most of us – have only the foggiest idea how we do what we do … decision making is a kind of fortune-telling, a bet on the future.*

Making this kind of bet on the future is risky. For example, in February 2005 Mark Hurd, then CEO of Hewlett-Packard (HP), a multinational technology corporation, approved an elaborate "sting" operation on a reporter in an attempt to plug leaks of competitive and sensitive information to the media. According to the *Washington Post*:[17]

> *Internal e-mails show senior HP employees who were given the task of identifying anonymous news sources concocted a fictitious, high-level HP tipster who sent bogus information to a San Francisco reporter in an attempt to trick her into revealing her sources.*

In this instance, what started off as an apparently good decision to find out how the leaks occurred resulted in an internal investigation into the sting operation that then led to criminal probes and became the subject of a congressional hearing. Hurd explains in his Congressional Written Testimony on September 26th 2006:[18]

> *What began as a proper and serious inquiry of leaks to the press of sensitive company information from within the HP board became a rogue investigation that violated HP's own principles and values. There is no excuse for this. …*
> *How did such an abuse of privacy occur in a company renowned for its commitment to privacy? The end came to justify the means. The*

investigation team became so focused on finding the source of the leaks that they lost sight of the privacy of reporters and others. They lost sight of values that HP has always represented.

The result of this kind of reputational disaster, which has wide-ranging repercussions in respect of share price, employee trust in management, and so on, inevitably leads to organisation design work as roles and processes are realigned to keep the business stable. Hurd, continuing his testimony, explains the measures taken:

We have appointed Bart Schwartz, the former head of the criminal division of the US Attorney's Office under Rudy Giuliani, to do an assessment of current practices and develop future best practices so that our processes will always be legal, ethical, appropriate and without peer.
    We are putting into place new measures to maintain the highest levels of information privacy. Let me elaborate on those internal policies.

FIG 8.1 **Advanced team decision-making model**
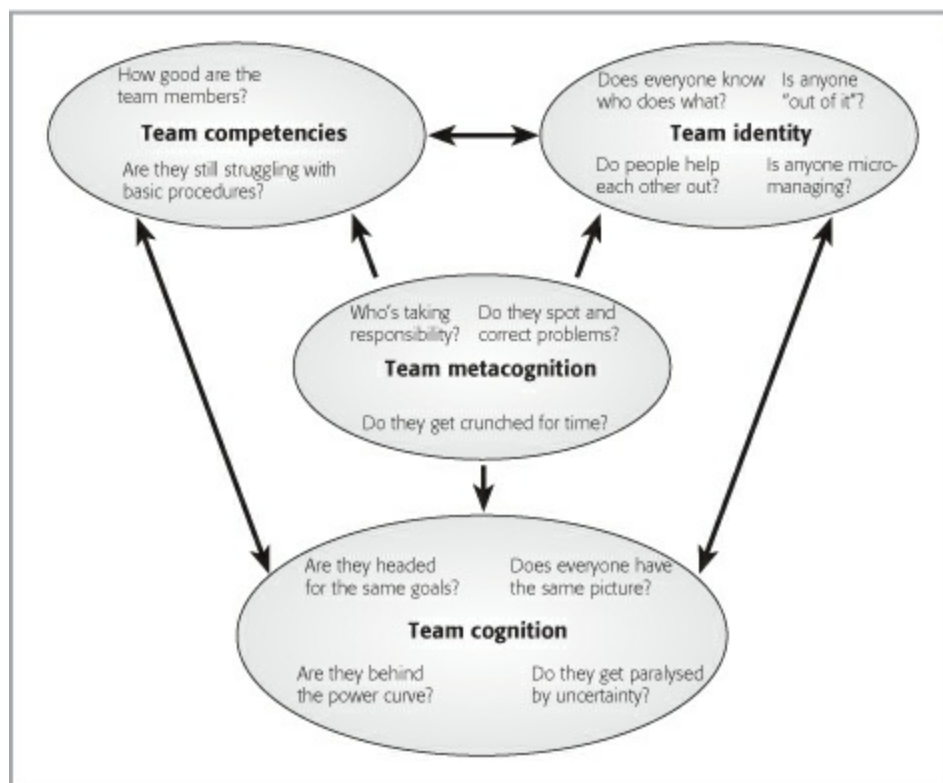
Source: Klein, G., *Sources of Power: How People Make Decisions*, MIT Press, 1999

In an attempt to minimise the risks inherent in group decision-making in organisations, various tools and techniques are brought into play. Simplifying considerably, these come from two schools of thought: first, teaching that good decisions come from a structured, analytical and rational approach; second, teaching that decisions are made in a naturalistic way involving experience, intuition, sense-making, and so on. Generally, managers are taught to make organisational decisions using the first – a structured way of getting to a situational decision. A common method is the Vroom-Yetton-Jago model of decision-making.[19]

The naturalistic method suggests that decisions are made in a much less analytical way drawing on a range of sources. Gary Klein presents a model (Figure 8.1) for assessing whether a team is likely to have good decision-making processes. The answers to the questions in each of the four areas give an indication of the soundness of a team's decision-making process.

In this naturalistic model, a team with a sound process usually has:

- high skill levels, and shared practices and routines (team competencies);
- a good sense of what they collectively, rather than individually, own and control (team identity);
- a shared understanding of the situation they are in with methods of communicating changes and preparing for them (team cognition);
- an ability "to create new and unexpected solutions, options, and interpretations, drawing on the experience of all team members to generate products that are beyond the capabilities of any of the individuals" (team metacognition).

Researching the characteristics of team decision-making, Klein describes a team of newly organised wildland firefighters with good processes:[20]

Marvin Thordsen was on location during a forest fire in Idaho, a large one that covered six mountains. He watched the command staff assemble a team of 4,000 firefighters, drawing them from all over the country. They put together a working organisation in only a few days and sent them out to fight the fire. It is hard to manage an intact organisation of 4,000 people, to give directions and make policies, even in stable and safe bureaucratic settings. Here, in less than a week, they were building that

*organisation and trusting it enough to risk lives. Why are they so good?
…*

The command staff met twice a day to make difficult decisions. After years of working together, the team members knew how to plan together. They did not waste time on politeness, and their egos were strong enough to take criticism without bristling. They were also sensitive to issues of morale. Someone who disagreed with the commander's action would confront the commander in the meeting only if it was necessary. Otherwise, the disagreement would be expressed in private. They did not want to waste staff time on lower-priority fights or create a feeling of divisiveness.

In reality teams use a blend of the two approaches, sometimes helped by technology tools such as Decision Lens, which allows groups to participate and collaborate in decision-making by identifying options and enabling electronic voting.

Because organisation design work is complex and involves decisions being made across a range of objectives, processes, policies, systems, technologies, skills, incentives, and so on (see Figure 1.2), making design decisions usually requires trade-offs whatever the method used. John Mackey, CEO of Whole Foods, a US natural and organic food retailer, was designing an expansion of his organisation. His answer to the question "Are there sustainable measures that you wish you could implement, but can't because of practical bottom-line concerns?" illustrates this:[21]

If you speak to the totally pure, you will cease to exist as a business. I made these decisions 25 years ago. My first store was a little tiny store called Safer Way. I opened it in 1978. It was a vegetarian store. We did $300,000 in sales the first year. And when we made the decision to open a bigger store, we made a decision to sell products that I didn't think were healthy for people – meat, seafood, beer, wine, coffee. We didn't think they were particularly healthy products, but we were a whole food store, not a "holy food" store. We're in business not to fulfil some type of ideology, but to service our customers.

Several years after this interview, Mackey was again asked to talk about decision-making at Whole Foods. At this point he was co-CEO with Walter

Robb, and A.C. Gallo was president and chief operating officer, indicating a design process the company had undertaken. Decision-making was done by consensus among the three of them:[22]

> *I found that when you make decisions by consensus, and you let all the disagreements get expressed, you make better decisions. If you don't do that, there is a natural human tendency on the part of whoever didn't get their way to want to be proved right. It's like "See, I told you that wasn't going to work." … Generally, if you're making [important] decisions … it's good to talk them over. It's a little bit like Japanese management decision making – they spend a lot more time trying to develop consensus in the decision group. The virtue of it is that although it takes longer to make the decision, implementation goes a lot faster, because there isn't resistance or sabotage that works its way through the organization.*

Going through a process gives a group the opportunity to look at a decision from various angles and consider the consequences of different courses of action. But even a good process is no guarantee of a good outcome. As Peter Drucker says in his book, *The Effective Executive*:[23]

> *[The value of the process lies in] checking the results of a decision against its expectations, showing executives what their strengths are, where they need to improve, and where they lack knowledge or information.*

Problem-solving

In his book *The Peter Principle*, Laurence J. Peter says:[24]

> *Some problems are so complex that you have to be highly intelligent and well informed just to be undecided about them.*

From the moment the design work is conceived, organisation design teams are faced with problems that may be latent, showing signs of becoming problems, or already evident (see Figure 8.2).

At whatever stage they are, the problems may have existed before the project was conceived or they may arise at any stage during the progress of the project. This means that organisation design teams need the skill to:

FIG 8.2 **Stages in problem life cycle**
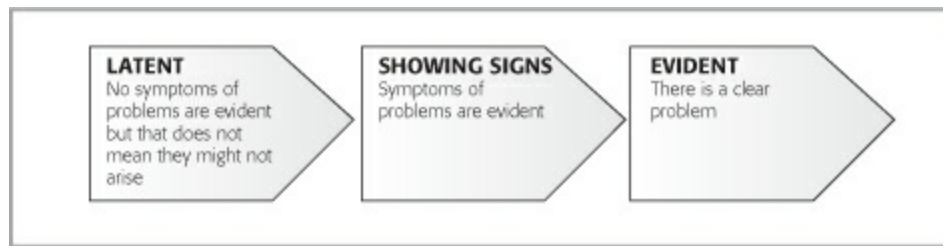
- anticipate problems before they emerge – this is linked to risk assessment;
- identify the symptoms of a problem early enough so it can be managed before it gets bigger – an analogy here is containing a grievance before it develops into a strike;
- take action on an evident problem – often design work focuses on one aspect while ignoring others.

The BP-owned Texas City oil refinery that exploded in March 2005 illustrates an organisation that had problems at each of the stages shown above.

BP: problems at every stage

An interim report into a fatal oil refinery explosion accuses BP of ignoring "catastrophic safety risks" and of knowing about "significant safety problems" at another 34 facilities around the world.

The US Chemical Safety Board (CSB), which publishes the damning findings today, believes that BP may have been aware for years of major problems at its Texas City refinery, which exploded in March last year killing 15 workers and injuring 180.

Carolyn Merritt, the CSB chairman, said: "The CSB's investigation shows that BP's global management was aware of problems with maintenance, spending and infrastructure well before March 2005. BP did respond with a variety of measures aimed at improving safety. However, the focus of many of these initiatives was on improving procedural compliance and reducing occupational injury rates, while catastrophic safety risks remained."

Source: Hotten, R., "BP 'ignored safety risks over refinery disaster'", *Daily Telegraph*, October 31st 2006

In this case, the recognised problem was ignored and people focused instead on improving compliance and reducing injury rates. They failed to identify the symptoms of disaster at that particular plant with the result that there was a catastrophic explosion, and they did not anticipate the problem (reputational and otherwise) that an explosion would cause. In other words, they did not manage the risks of this. The result of the explosion is an investment of an estimated $1 billion of organisation design work aimed at improving and maintaining the site.

BP: repairing the damage

"The report clearly describes the underlying causes and management system failures which contributed to the worst tragedy in BP's recent history," said Ross Pillari, president of BP Products North America Inc. "We accept the findings, and we are working to make Texas City a complex that attains the highest levels of safety, reliability and environmental performance."

Some of the actions recommended by the investigation team have been completed. Many are under way. Texas City site manager Colin Maclean has established a special project team to plan and drive execution of the improvement program.

The company will install modern process control systems on major units, transition to a more powerful maintenance management system, improve worker training, remove blow down stacks and implement the other recommendations contained in the final report. The project team will also develop plans for reconfiguring and simplifying the operation of the Texas City refinery.

Source: BP press release, December 9th 2005 (www.bp.com)

Despite this promise, five years later, in April 2010, BP's Macondo operation exploded, killing 11 people and sending oil gushing into the Gulf of Mexico. Court cases finding BP responsible for the deaths and environmental pollution have cost the company billions of dollars in clean-up operations, fines and compensation.

BP's experience demonstrates that although problem-solving, like decision-making, is best approached in a disciplined way, selecting tools and approaches appropriate for each stage in the life cycle (see Table 8.5) does not necessarily mean that the problem is solved. Organisations are complex

and messy, involving emotions, behaviour and interpersonal interactions. However detailed an inquiry is, think of it as offering information as part of a range of actions to be taken rather than a set of recommendations providing an instant remedy.

TABLE 8.5 **Some tools for each stage of a problem life cycle**

Problem life cycle	Group process tools for each stage
Anticipate problems before they emerge	Use tools and approaches associated with risk assessment:
	Brainstorming
	Questionnaires
	Business studies which look at each business process and describe both the internal processes and external factors which can influence those processes
	Industry benchmarking
	Scenario analysis
	Simulation exercises
	Risk assessment workshops
	Incident investigation
	Auditing and inspection
	HAZOP (hazard and operability studies)[a]
Identify the symptoms of a problem early	Spotting anomalies
	Pattern recognition
	"Connecting the dots"
	Using intuition – "something doesn't smell right here"
	Tracking trends
	Seeking confirmatory or disconfirmatory information
	Comparison of past and current experience
	Seeing the invisible
	Filtering out noise
Take action on a recognised problem	Use tools and approaches associated with Six Sigma DMAIC (define, measure, analyse, improve, control) methodology, eg:

Kaizen

SIPOC (suppliers, inputs, process, outputs, customers)

Work-out

Pareto chart

Regression analysis

Cause and effect/fishbone diagram

5 Whys

Note that Table 8.5 shows both rational and naturalistic tools. Blend these as the situation demands and also note that although the tools are associated with a particular stage, this does not preclude using them in other stages. Remember, too, that no method can predict all possible problems as Michael Saylor of MicroStrategy ruefully acknowledged a year after his company's crash:[25]

What a difference a year makes. Saylor is still young, but it seems as though he's aged 10 years in 12 months. His dark hair has started to turn gray. He says that he's much more cautious as a result of MicroStrategy's meteoric rise and fall – and more humble. While he still answers questions in long, eloquent passages, they sound less like a lecture and more like a confession. "If I was a better manager, if I had had more experience, if I was more careful, if I was more competent, maybe this wouldn't have happened," he concedes. "It's like being a parent whose children were playing in the front yard, and one of the kids got struck by lightning, and now he's dead. You didn't have a lightning rod on your roof, because you were planning to take care of doing that next year. Now people walk by your house, point, and say, 'Look, that's where the kid got struck by lightning.' It's an awful feeling."

Managing conflict

Those involved in organisation design projects frequently find themselves in conflict with others. Recognising that conflict is inevitable and learning to manage it constructively rather than trying to avoid it is critically important. Margaret Heffernan, a businesswoman and writer, spoke eloquently about the

power of constructive conflict in honing problem-solving, citing the example of Alice Stewart, a scientist investigating childhood cancers, and George Kneale, a statistician whose role it was to prove her findings wrong:[26]

He [George] saw his job as creating conflict around her theories. Because it was only by not being able to prove that she was wrong, that George could give Alice the confidence she needed to know that she was right.

It's a fantastic model of collaboration – thinking partners who aren't echo chambers. I wonder how many of us have, or dare to have, such collaborators. Alice and George were very good at conflict. They saw it as thinking.

So what does that kind of constructive conflict require? Well, first of all, it requires that we find people who are very different from ourselves. That means we have to resist the neurobiological drive, which means that we really prefer people mostly like ourselves, and it means we have to seek out people with different backgrounds, different disciplines, different ways of thinking and different experience, and find ways to engage with them. That requires a lot of patience and a lot of energy.

FIG 8.3 **Steps in a conflict cycle**
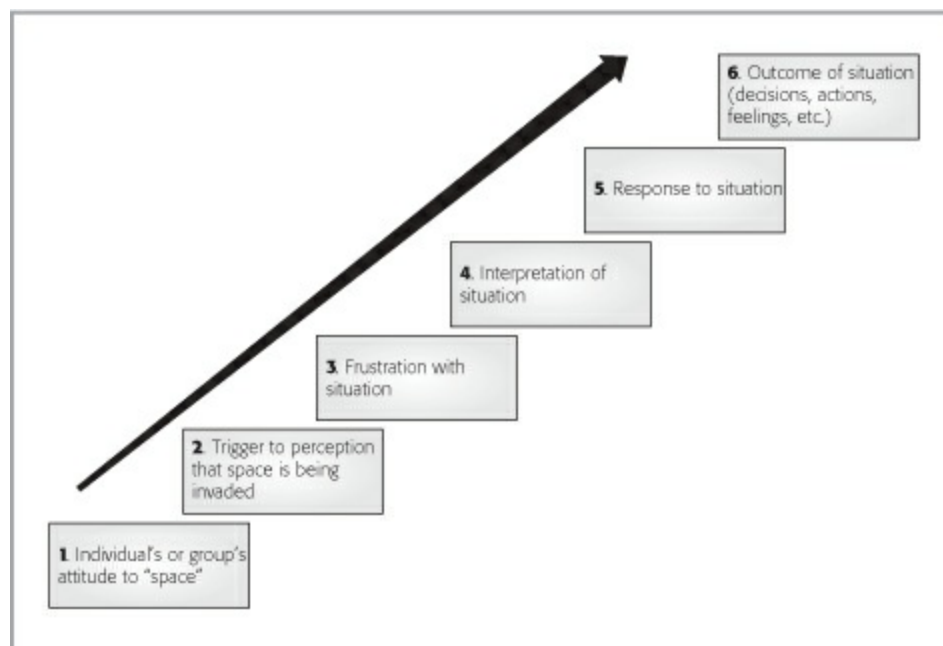
People's attitudes to conflict depend on a range of variables: what

inflames one person may not even be noticed by another. Conflicts are most likely to occur when a person or a group feels that their social, psychological, emotional, physical or other space is threatened, and only some form of dialogue will resolve the conflict. There are six steps in a conflict cycle (see Figure 8.3).

TABLE 8.6 **Positive and negative outcomes of group conflict**

Positive effects of conflict	Negative effects of conflict
Causes problems to surface and be dealt with	Frustrates individuals
Clarifies points of view	Reduces co-operation
Stimulates and energises individuals	Destroys trust
Motivates the search for creative alternatives	Diminishes performance and motivation
Provides vivid feedback	Causes lasting damage
Creates increased understanding of individual conflict styles	Communication breakdown
	Builds stress
Tests and extends capacities of group members	Breaks up relationships
Provides a mechanism for adjusting relationships	

Source: Mitchell, R.C., "Constructive Management of Conflict in Groups", 2002 (www.csun.edu)

Conflict is often thought to be a negative group dynamic, but if managed effectively at steps four and five (interpretation of situation and response to situation) it can be positive (see Table 8.6), as in Heffernan's example.

Individual conflict style and the process a group uses for managing conflict have the greatest impact on the outcome of a potential conflict situation. It is therefore helpful to know what individual and team role styles

are and how conflict styles can be assessed. There are several tools and models available for individual conflict style assessment, most based on a five-mode response model with two dimensions (see Figure 8.4). A popular one is the Thomas-Kilmann Conflict Mode Instrument.

In this model, the "concern for self" axis is the degree to which a person aims to satisfy his or her personal concerns or needs, and the "concern for others" axis reflects how much someone is concerned with meeting others' needs or concerns:

- The competing or dominating style emphasises winning at the expense of other people – it is highly assertive and unco-operative.
- The collaborating or integrating style involves high concern for self and high concern for others – it is both assertive and co-operative.
- The avoiding or neglecting style shows low concern for self and low concern for others evidenced by withdrawal, denial or sidestepping confrontations.
- The accommodating or appeasing style reflects low concern for self and high concern for others, akin to self-sacrificing and acquiescing.
- The sharing or compromising style shows moderate concern for self and for others. It takes a middle ground that involves trading concessions, splitting the difference, and so on.

FIG 8.4 **Conflict style model**

A tool such as Belbin's team-roles, which is an inventory designed around nine clusters (team-roles) of behaviour, each having a combination of strengths and areas for development, can be used to assess the part individuals play in groups. Using this form of assessment in combination with an assessment of team-member conflict style is a powerful way of thinking about managing conflicts that may arise. Some interesting research by Aitor Aritzeta, Sabino Ayestaran and Stephen Swailes, who used the Belbin team role tool, suggests that:[27]

> *Creating a high performing work team is not just about putting well-trained individuals together and giving them the autonomy to take decisions. Such teams also need to be built in a complementary way where different team role preferences are present and individuals have the abilities to manage conflict. Knowing how team role preferences are related to conflict management styles will help practitioners to build balanced teams.*

Other ways of managing conflict focus on the processes and strategies used by participants either at the point of conflict or as the conflict escalates up the management ladder. Strategies for managing at the point of conflict include:

- devising and implementing a common method for resolving conflict (for example, collaboration, mediation, team counselling);
- providing people with criteria for making trade-offs (for example, between speed in getting a new process up and running and ensuring its seamless integration with existing ones);
- halting the escalation of conflict, rather than accepting it, and coaching people to manage it at their level. IBM, for example, runs training programmes with back-up resources for staff. One of these lists the types of conversations that might occur and suggests some methods of managing these.

Strategies for managing conflicts as they start to escalate include:

- establishing and enforcing a requirement of joint escalation (that is, people present a disagreement jointly to their manager or managers);
- requiring managers to resolve escalated conflicts directly with their peers;
- making the process for escalated conflict resolution transparent.

Jamie Dimon, CEO of JPMorgan Chase, notes his way of stopping the escalation of conflicts as he designs the company to be less bureaucratic:[28]

You have all these meetings, and people come and see you privately afterward and say, "Well, I know what we said there, but here's what I really think about it." And my reaction is, "Hey, am I your messenger? You couldn't say it in the meeting?" The response is, "Well, I thought so-and-so would get upset." And I say, "I don't care whether he or she gets upset. Say it next time." I have no problem with someone coming in and saying, "Hey, we met. We don't agree. Here are the facts on which we agree; here are the things we disagree on. Can we talk about this now?" That's what mature management does.

CASE STUDY 7

Management of roles and conflicts

Enterpriseaccess.org is the official business link to a major Western country's

government, and is managed by the Department of Enterprise in a partnership with more than 20 other government departments. This partnership, known as Enterprise Access, is an initiative that provides a single access point to government services and information to help the country's businesses with their operations.

Enterprise Access initially focused on starting, growing and financing small businesses. More recently users said they needed help in complying with government regulations, a need that was not being met by any other government programme. To meet that need Enterprise Access was relaunched to provide a one-stop compliance assistance shop for businesses. It held over 20,000 compliance-related documents from 94 government websites, and for the first time businesses were able to go to a single website for all their compliance assistance resources. One business owner reported:

> *It's a real breakthrough. I've browsed the site and already I can see it's going to save me hours of time and a lot of money. The maze of stuff I have to submit to comply is a nightmare and I was never sure if I got it right. The burden has almost put me out of business, but with this resource and the way it's organised I don't have to know which of the 90 or more departments to contact, or navigate millions of documents returned from general web directories and search engines.*

The team behind the portal's new look comprised Enterprise Agency staff and external consultants, and the project had not gone smoothly. Malcolm Silcock, the programme manager, said:

> *Quite honestly this has been a difficult project. On the client side, we've had five changes in the client we reported to, the government stakeholders have been inconsistent and unreliable, we've had to handle a lot of budget unknowns because the funding comes from the 20 partnering departments which all have the option to withdraw funding. On our side, our company was acquired, which has led to team turnover with all that entails, and we weren't sure for almost a year precisely what the project aimed to achieve, which caused a lot of tension and in-fighting.*
>
> *I clearly remember the day when we had everyone together and finally nailed the direction. It was a real turning point. People stopped blaming each other for hold-ups and there was a reduction in gossip and emotional responses. Other issues remained unresolved, but once we had a common goal we became motivated. We started to say "let's do this together", instead of "this is never going to work". I'm really proud that we've achieved the first goal of getting the site renewed and relaunched. Now our task is to drive traffic to the site and give the users good reasons for returning. In a year from now I'd like to be seeing an extended user base and hearing success stories that*

they put down to the site's content and ease of use.

To recalibrate the project (starting again but from where the company was then) and set the tone for the next phase, Silcock decided to run a one-day workshop:

What I'd like to come out of it is that we have a common view of what the current situation is, and what we would like to achieve in the coming year. To do this we need to agree why we should bother working towards this – what's in it for all the players? Of course it can't be just a talking shop, we also need to draft a high-level plan of what work has to be done together with a timeline and critical milestones so we're in a better position to respond as the situation changes.

Silcock and the facilitator he brought in to orchestrate the day carefully designed it in the spirit of appreciative inquiry (see Glossary). The opening session included questions like: What do you most enjoy about your work? What works well in the team you currently work with? What surprised participants was their realisation that they had successfully met their target because, for the most part, once they had an agreed direction they had managed to achieve an open team culture where they shared information, sought creative solutions to issues and valued the diversity in the team.

The morning progressed in a similar vein, and the client manager reported:

My eyes were really opened when we did that transferable skills exercise [see Tools for this case below] where we all identified the three or four things we were most competent at and I saw how much capability we had available to us. It made me see more clearly that people are wired differently and that we could use this diversity more effectively. In the discussion we had about some of the conflicts we'd had I could see that a lot of it was probably due to people trying to place their standards on others. Also we'd been under very tight time pressures to get the software right and didn't take time to have face-to-face discussions. Had we done that we probably would have identified the root problems and solved these rather than arguing about the symptoms we had to deal with.

The exercise on capturing achievements to date led to other insights. The software architect said:

What I enjoyed hearing was not just the range and level of achievements we'd had but the discussion around what made these possible. It pulled out the reasons why we were successful in some aspects and suggested that if we applied similar approaches in those cases where we'd had difficulties things might have worked out differently. For example, I remember a tremendous

blow-up in the early stages when the technical solution failed on all counts – I don't think we realised that some of what happened was due to our not defining our terms properly. There was frustration because some of our partners felt their territory was being encroached on, and we worried too much about trying to hide our problems from the client rather than sharing openly and honestly what was going on.

The client, who was our point of contact at that stage, was difficult too. To protect ourselves we felt obliged to hide all the issues from him as he couldn't cope with anything but good news. This led to all kinds of complications which, with the current client manager, we simply don't have. Her view is that an unhealthy culture develops if people can't express openly what's going on.

The afternoon session focused on the practicalities of drafting a high-level plan, and again to the surprise of some of the participants the session ran smoothly. It began with the facilitator reminding people of some of the attributes for group success that participants had identified in the morning: listening carefully before responding; sticking to the issues in hand; keeping the behaviour and vocabulary level; not overreacting; and calling truces for rethinking, cooling off, or recovering.

Six months after the event the programme manager commented:

I had in mind what the streams of work should be, but as the discussion progressed I started to change my mind and, in fact, stopped even thinking about my solution and went with the flow of the group. It made a lot of sense because I was new to the project and they'd all been working on it for various lengths of time. What we came up with was radically different from what I planned to propose but I could see how it made sense to start from a clean slate. What was more important was that we arrived at a jointly agreed solution that everyone subscribed to. I must admit that I'm rather impatient and over the course of the three hours or so that it took I wondered if we were ever going to get to closure but I'm glad that I stuck with it. The thing that catalysed it for me was that graphic that the facilitator showed (Figure 8.5).

My approach was going to be that of the common design scenario building on what already existed, and what we've got now is the more successful design scenario reflecting a whole view of the project in the system and not a piecemeal view. By celebrating their success and acknowledging the different strengths people bring to the table, the team has been able to find a creative solution to recalibrating the project. What's striking is that we're getting a lot of kudos for the way things are going. For example, we've now got trade associations' support, and other government departments are using us as a model of success for one-stop information and are seeking our input on how to apply our learning to their projects. Of course it hasn't all been easy. We've had to put a lot of effort into defining our own operating processes – decision-making, problem-solving and managing the inevitable conflicts. But it seems

that this investment is paying off and we are almost able to say that the
Enterprise Access project is running as a well-oiled machine.

FIG 8.5 **Aligning project initiatives with the vision**
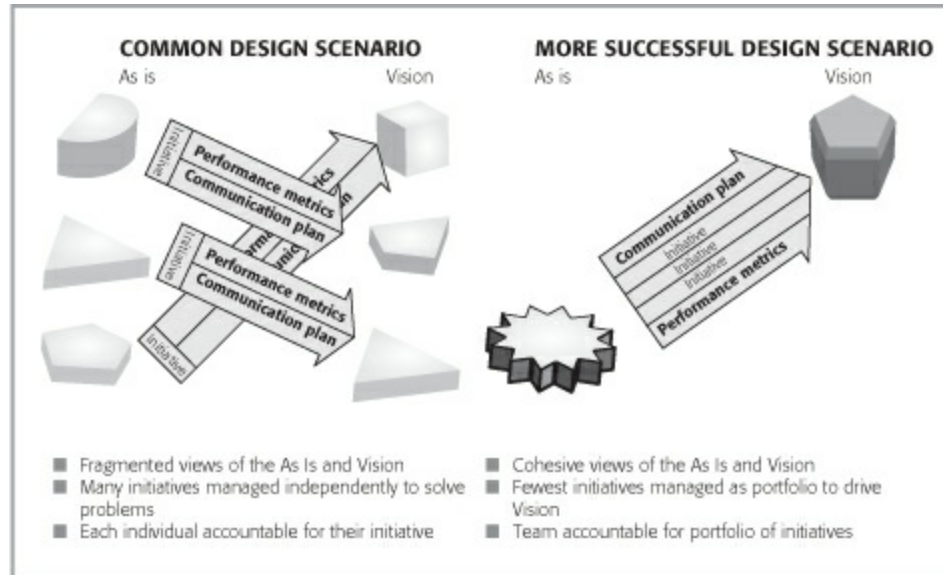
Reflections on the case study

Having to redesign project organisations when they have reached specific milestones (in this case the website launch) or when some other event occurs (such as a significant change in stakeholder support) is extremely common.

This case is interesting because on the face of it the project had achieved success in that it was on schedule, within budget and well received. Probing more deeply using appreciative inquiry revealed a number of aspects where participants agreed that they could do things differently and much better. It also revealed how they had been able to be successful in the first phase. Crucial to their success was agreeing the vision and mission of the project and thus having a common direction for their work. With this, and the constraints of time and budget, they had tight boundaries to work within, and were able to move from a culture of blame towards a more participative "one for all and all for one" approach. With the appointment of the new client contact they were able to move away from a denial culture. Both these events meant a shift in the shadow side of the project organisation towards a healthier, more trusting working environment. The shifting context had a clear impact on the project.

Team members handled decision-making less well than they felt they should. For example, they knew they had to make a decision on data harmonisation as they were getting information in different formats from the various departments, but they had procrastinated on this, which led to upstream difficulties.

They all felt pretty good about problem-solving. But looking again at how they did it, they understood that they were not using the diversity of the team to come up with innovative solutions. They had a tendency to limit discussion to people in their work streams, which they felt could lead to missed opportunities.

Managing conflict was an aspect that they felt they could improve on. Team members recognised that negative conflicts arose over things like administrative procedures, resource issues, deadlines, overruns, and not prioritising carefully enough. By contrast, they saw that there were some positive conflicts that they found energising and capacity building provided that they followed the "rules": listening effectively; acknowledging people's positions; responding without defensiveness; and looking for the root cause of the issues rather than trying to deal with the symptoms.

Tools for the case study
Motivational and transferable skills cards

These are available both online and as physical cards from CareerPlanner.com. They are used to help individuals and groups identify and apply aspects of skills and values to work choices. Transferable skills are first identified under five headings ranging from "total delight in using" to "strongly dislike using". In a second step the cards are sorted into ability level: highly proficient, competent, lacks desired skills. A report is generated from the skills sort giving an assessment of the types of roles that match the skills profile.

The prisoner's dilemma

The prisoner's dilemma shows that, in certain circumstances, if the members of a group trust each other, they can choose a course of action that will lead to the best possible outcome for the group as a whole. Without trust, each individual will aim for his or her best personal outcome, which can lead to

the worst possible outcome for all.

In the prisoner's dilemma, two players act as prisoners who have been jointly charged with a crime (which they did commit) but they are questioned separately. The police have enough evidence to secure a conviction for a minor offence but not enough for the more serious crime.

The prisoners make a pact that if they are caught, they will not confess or give evidence against each other. If both prisoners keep their word, they will only be convicted of the lesser offence. The dilemma occurs when the police offer each prisoner a reduced prison term if they confess to the serious offence and give evidence against the other prisoner.

This is a good exercise in group dynamics when played with a pack of playing cards (instructions are available at www.indiana.edu). Individuals can also play the Open University's interactive prisoner's dilemma (www.open2.net).

Summary

This chapter discusses aspects of group culture and dynamics, putting the view that successful organisation design work is characterised by a no-blame culture, telling it like it is and reducing the negative power of the shadow side. Team members working on organisation design projects must be able to work effectively with group processes and dynamics, specifically methods of decision-making, problem-solving and conflict management.

Even so, success is not guaranteed. But returning to Shackleton's expedition:[29]

> *Whether there is one book or 20, the fate of the Ross Sea Party deserves to be told and retold. "There are," wrote the Edinburgh Evening Dispatch, "some failures as glorious as successes. Sir Ernest Shackleton's is one of them". No less important, no less memorable, is the story of The Lost Men.*

9   Continuous design

Evolution … starts from an existing design and alters it progressively by a series of small changes over many generations … every stage in the evolutionary sequence must be capable of holding its own in a competitive world.

R. McNeil Alexander, *Bones*

ORGANISATION DESIGNERS look for assurances that their design is right and that it will endure. They aspire to "future proof" its success, but this is impossible because they are not designing a static building or a monument. An organisation is a dynamic system with its own life cycle. Consider designing the right shape, size and operating processes for a shoal of fish. Organisation design is done in an analogous context: environmental conditions and constituent parts are constantly changing, so the most that can be achieved is something that may or may not be ideal but may be the best (more or less) for the moment.

Although no organisation design will last forever (or even very long), it does not mean that the organisation itself is necessarily under threat. Like a shoal of fish, an organisation continuously changes shape, size and membership, yet lasts over time. Threats generally come from externalities, such as environmental change or predators, which can be subtle or cataclysmic. So it is with organisation designs. Go into a design process knowing that it will not endure. This is not defeatist, just realistic.

Begin with the view that the design is dynamic, has a life cycle and will change as the context demands, and there will be fewer accusations of design failure and more support from stakeholders (who usually want quick results from a new design yet cold-shoulder the notion of a redesign if the results are not delivered). Good designs are not a one-shot effort; they allow for meeting continuous change while simultaneously keeping the business operations running successfully.

In this respect they are iterative, and in the better cases they are in

continuous design mode. In this model organisational design teams follow four principles:

- Collaborate to align interests and share understanding about the context and what is changing in it.
- Balance competing interests and priorities.
- Keep an eye on the whole system to recognise risks and opportunities as they arise and to develop the capability to meet changing circumstances.
- Continuously seek feedback from a range of sources and use the information gained to evolve.

This chapter discusses why continuous design capacity is required and then presents several ways in which organisation designs can work to invigorate and revitalise an organisation while simultaneously building renewal and regeneration capability.

Why continuous design capacity is required

As Peter Drucker said:[1]

Everybody has accepted by now that change is unavoidable. But that still implies that change is like death and taxes – it should be postponed as long as possible and no change would be vastly preferable. But in a period of upheaval, such as the one we are living in, change is the norm.

Enter the phrase "one minute on the internet" on a web browser and it is easy to see why change is the norm. In February 2014 a list of what happens in one minute was as follows:[2]

- 639,800GB of global IP data transferred;
- 133 botnet infections;
- 6 new Wikipedia articles published;
- 1,300 new mobile users;
- 20 new victims of identity theft;
- 204m e-mails sent;

- 47,000 app downloads;
- $83,000 in Amazon sales;
- 61,141 hours of music played on Pandora;
- 100 new LinkedIn accounts created;
- 20m photos viewed on flickr; 3,000 photos uploaded;
- 320 new Twitter accounts created; 100,000 new tweets sent;
- 277,000 Facebook logins; 6m Facebook views;
- 2m Google search queries initiated;
- 30 hours of video uploaded to YouTube; 1.3m videos viewed;
- Today, the number of networked devices equals the global population. By 2015 that number will be double the global population;
- In 2015 it will take you five years to view all video crossing IP networks each second.

Each month brings an increasing amount of web traffic, all of which has the potential to have an impact on organisation design. For example, the number and type of networked devices has a crucial effect on the way customers and organisations interact with each other.

One sector that faces the challenge of competing online via various channels is retailing, as online sales growth increases annually (see Table 9.1). During 2013 the average proportion of online sales was 6.3% of all sales in Europe and 10.3% in the US, and in all countries it is predicted to continue to grow. Shopping via mobile devices and smartphones grew even more rapidly than other forms of online shopping.

TABLE 9.1 **Europe: online retail sales, 2013–14**

	2013		2014	
	£bn	% growth year on year	£bn	% growth year on year
UK	38.83	16.8	44.97	15.8
Germany	28.98	39.2	35.36	22.0
France	22.65	12.0	26.38	16.5
Spain	5.75	22.5	6.87	19.6
Italy	4.48	18.6	5.33	19.0
Netherlands	4.48	11.6	5.09	13.5
Sweden	3.13	15.9	3.61	15.5
Poland	2.92	24.0	3.57	22.6
Total	111.22	20.1	131.18	18.1

Source: Centre for Retail Research, "Online Retailing: Britain, Europe and the US 2014" (www.retailresearch.org)

For an established organisation, moving online requires a new business model that focuses on customers and a "frictionless customer experience" (an experience that is not perceived as disjointed). This inevitably involves:

- improving processes;
- updating websites and e-commerce programmes;
- integrating all social, mobile, web, e-commerce, service efforts and investments;
- updating customer-facing technology systems;
- researching customer touch points and building competitive social-media channels;
- creating sense of urgency among senior management that this is the way to go;
- overhauling customer service.

Grocery retailers are learning rapidly how to redesign these aspects as they seek to gain online market share. Tesco, a UK supermarket chain with outlets in several countries, has developed its online presence in this way, creating interactive grocery stores in airports and London tube stations, expanding into new online products and services such as movie streaming, e-

books and tablets, and setting up collection points where customers can pick up goods ordered online. During 2012 its 37% share of the online grocery market was more than twice that of any of the other big UK supermarket groups.

But in the online world there is no room for complacency. And online capability does not necessarily spell success. By March 2014 Tesco's share of grocery shopping had fallen to the lowest level in a decade, as it was challenged by grocery discounters such as Aldi and Lidl.

Organisations exist in a context of continuous flux and interaction, where small and big things happen in the environment and leaders, managers and strategists respond (or not) to them. Interestingly, people appear more responsive to contextual changes in their personal lives than in their working lives. One reason is that organisations often encourage employees to be narrowly focused and therefore blinkered. Organisation control devices such as reporting lines, performance appraisals, scorecards and measures suggest that employees have to achieve certain targets to a specific schedule, so the wider context is not sufficiently brought to bear in making strategic and operational decisions and choices.

Often these traditional control systems and processes militate against organisations' developing a continuous design capability, and it is difficult to develop adaptability and responsiveness. However, a design that has a narrow, short-term focus and ignores the wider context will fail to achieve its objectives. To lay the foundations for design flexibility it is necessary to keep abreast of three aspects of an organisation's external context and three of its internal context:

- External context:
    - new businesses and models;
    - collective responsibility for our future;
    - market developments.
- Internal context:
    - corporate governance;
    - psychological contracts;
    - workforce demographics.

Of course there are other external and internal context factors to bear in

mind, but these six are the ones currently having the most impact upon organisations.

External context: new businesses and business models

An astonishing array of new businesses and business models has emerged in the past ten years. The rise of the sharing economy, in which people rent beds, cars and other underused assets directly from each other, co-ordinated via the internet is one example.

Airbnb is an online community marketplace in which any individual from around the world can list accommodation in their homes, discover accommodation in other people's homes, and book what they need through mobile phones or the internet. It was founded in 2007, and by early 2014 11 million people were using its services to enjoy what the company describes as a "new vision of hospitality bringing local, personal experiences to visitors".

Continued growth cannot but have a significant impact on established hotel chains, and indeed in 2014 *The Economist* reported:[3]

> *If Airbnb were to keep growing at its current rate – its listings are doubling every year … by 2016 the dent in budget hotels' takings will be 10% … Smaller hotels are already blaming it for their woes. "I see a direct correlation between our revenues going down and [Airbnb's] going up," said Vijay Dandapani, the president of Apple Core Hotels in New York. "We had continued growth until Airbnb."*

This example illustrates the swift rise of a new type of business model that directly competes with a more traditional one. Table 9.2 shows some of these.

The impact that networking and other technologies have had and are continuing to have on businesses cannot be underestimated. With what seemed like hyperbole in 2006, *Fast Company* noted:[4]

> *It's hard to overstate the coming impact of these new network technologies on business: They hatch trends and build immense waves of interest in specific products. They serve giant, targeted audiences to*

advertisers. They edge out old media with the loving labor of amateurs. They effortlessly provide hyperdetailed data to marketers. If your customers are satisfied, networks can help build fanatical loyalty; if not, they'll amplify every complaint until you do something about it. They are fund-raising platforms. They unify activists of every stripe, transforming an atomized mass of individuals with few resources into an international movement able to put multinational corporations and governments on the defensive. They provide an authentic, peer-to-peer channel of communication that is far more credible than any corporate flackery[5].

TABLE 9.2 **Traditional and new business models**

Traditional model	New model
Press release	Twitter/Facebook announcements
Marketing collateral	Content curation tools
Media tour	Webcast, YouTube
Event	Social networks
Customer reference	Community advocate
Data sheets	Data visualisations, tag clouds
Newspapers	Blogs
Encyclopaedia	Wikipedia
Phone	Skype, instant messaging (IM)
Classifieds	Craig's list, Freecycle
Music stores	iTunes
Blockbusters	Netflix
Traditional music industry	MySpace, podcasting
TV	Rich web media, video blogging
Radio	Podcasting, XM radio
Travel agencies	Online travel comparison/booking sites
Magazines	Pinterest
Talent agents (music, film, modelling)	MySpace, blogs, other social networking
Middleperson	Internet peer to peer
Banks/financial services	Online banking, mobile phone banking
Venture capital	Crowdsourcing, eg Kickstarter

Nevertheless, this message has proved true up to now. As well as grocery retailing, other sectors are under threat, including the traditional newspaper industry, retailing generally, telecommunications, software, pharmaceuticals and advertising.

Organisations must take account of changing businesses and business models. This is easier said than done, although there are some examples of established organisations trying to make the shift. A good example is IBM, which has been moving from hardware to services and software. Between 2000 and 2012, the proportion of profits from hardware fell from 35% to 14%, but that from services and software rose from 33% to 41% and 27% to 45% respectively. The company expects software to account for 50% of segment profits in 2015.

Making this shift typically involves a series of design changes:

- building or buying a way into a new market, such as cloud, HR or security;
- layering in any existing organisational capabilities (in IBM's case analytics) or change and process management expertise;
- developing appropriate elements of the existing infrastructure to support the new services;
- divesting products and services that do not fit the new model.

Following this model, IBM launched its Talent and Change consulting practice by buying a cloud company, SoftLayer, using its existing management consulting capabilities; developing aspects of its suite of HR software; and divesting some of the lower-margin hardware business.

There are some organisations, however, that may not be able to achieve the radical redesigns necessary to survive and prosper. The challenge for them is to ensure that their demise is as well planned and painless as possible.

External context: responsibility for our future

As George Bernard Shaw said, "We are made wise not by the recollections of our past, but by the responsibility for our future."

Global issues loom larger by the day. Table 9.3 lists 20 that have an impact on organisation design and highlight the increasing responsibility

organisations feel they have to help shape a sustainable future for the world at large as well as their own business.

TABLE 9.3 **Global issues affecting organisation design**

Environmental issues	Global warming
	Biodiversity and ecosystem losses
	Fisheries depletion
	Deforestation
	Water deficits
	Maritime safety and pollution
Humanitarian issues	Poverty and income disparity
	Peacekeeping, conflict prevention, combating terrorism
	Education for all
	Global infectious diseases
	Digital divide
	Natural disaster prevention and mitigation
Regulatory issues	Taxation
	Biotechnology rules
	Financial systems
	Illegal drugs
	Trade, investment and competition rules
	Intellectual property rights
	Individual privacy concerns
	E-commerce rules
	International labour and migration rules

Source: Adapted from Rischard, J-F., *High Noon: 20 Global Problems, 20 Years to Solve Them*, Basic Books, 2002

Organisations designing in aspects of global responsibility include GE, which launched ecomagination in May 2005.

GE: ecomagination

A broad portfolio of new technologies that will provide solutions to our energy needs and revolutionize how we power the world. It's all part of the company's exciting new growth initiative called ecomagination.

Ecomagination is GE's commitment to help our customers and society at large solve its most pressing energy and environmental challenges. Under ecomagination, GE has committed to:

- Doubling its research investment in environmentally friendly technologies from $700m to more than $1.5 billion over the next five years.
- Introducing new products and services that offer significant and measurable environmental performance advantages to its customers.
- Reducing its greenhouse gas emissions (GHG) and improving its energy efficiency.
- Keeping the public informed. GE has pledged to publicly report its progress in meeting its goals.

GE's philosophy in this rapidly changing energy market is that "Green is Green" – good environmental policy makes good economic sense. The billions of dollars we are investing in new, eco-technologies today will mean billions more in sales and revenues for the company in the future.

Source: GE, ecomagination

Since 2005 the strategy has been successfully implemented. For example, ecomagination is on track to help lower GE's greenhouse gas emissions by 25% in 2015 compared with 2004, a reduction of 6m metric tons. Water use is also expected to be reduced by 25% in 2015 compared with 2006, a reduction of nearly 4 billion gallons. Furthermore, ecomagination's revenues are growing at nearly twice the rate of GE's total revenues.

Almost every day other household-name companies, not previously associated with greenness or sustainability, join the ranks of those announcing their intention and commitment to address one or more of these aspects of common concern, while those already active in the arena are doing more. In doing so, they are effecting a new design of their organisation.

An example is Clif Bar, a company that makes snack bars, which has five stated aspirations: sustaining our planet, community, people, business, brands. Each year it seeks to take these a little further. The company is

committed to achieving a carbon neutral environment, and since 2003 has been working towards this. By 2013, Clif Bar was also getting all the cocoa for its products from Rainforest Alliance Certified farms. The organisation design work needed to achieve this included rethinking sourcing processes, developing new supplier relationships, changing contracts, amending packaging, and so on.

Responses to global issues such as those made by GE and Clif Bar require a continuous change capacity to transform the organisation design from old product or service to new product or service without missing an operational beat.

External context: market developments

Alongside the business challenges of technology and global responsibilities is the challenge of managing market developments around the world. Markets change depending on many factors, including financial, political and social, and it is outside the scope of this book to discuss these in detail. Three examples illustrate the effect of market developments, including new competition and shifts in consumer patterns, on organisation design.

Emerging markets

Although definitions of what an emerging economy is differ, generally they are economies where income per head is low to middle. For the 2014/15 fiscal year the World Bank defined low-income economies as those with a gross national income (GNI) per head of $1,045 or less in 2013, and middle-income economies as those with a GNI per head of more than $1,045 but less than $12,746. Emerging economies are also characterised by moving from traditional agriculture and/or export of raw materials to a free-market or mixed economy, rapid growth, high volatility and higher-than-average returns for investors.

Since 2005 Bloomberg Markets has presented an annual ranking of emerging markets. Top of the 2014 list was China, with South Korea and Malaysia in second and third places. Two years earlier the list was also headed by China, but with Thailand and Peru in second and third places. The first year in which emerging markets accounted for more than half of world GDP on the basis of purchasing power parity was 2013. In July that year *The Economist* noted:[6]

FIG 9.1 **Unprecedented**

Emerging-market share of world GDP[a]
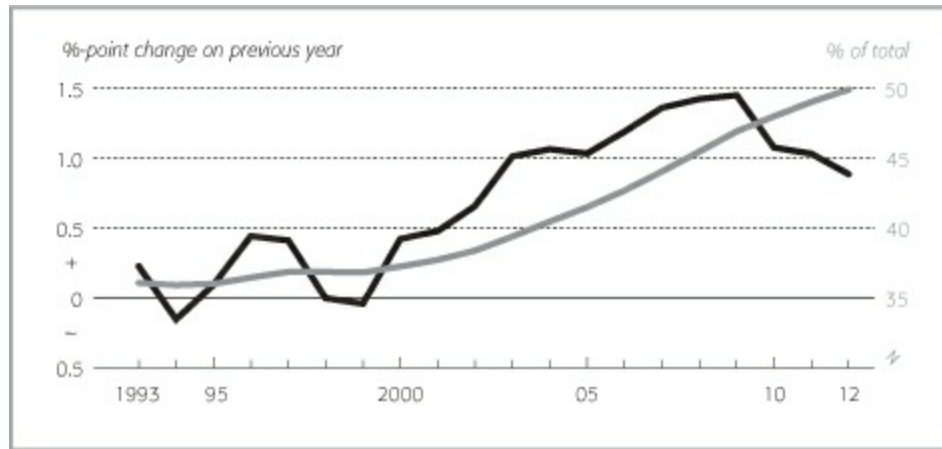
a At purchasing-power parity.

From 2003 to 2011 the share of world output provided by the emerging economies grew at more than a percentage point a year. [See Figure 9.1] The remarkably rapid growth the world has seen in these two decades marks the biggest economic transformation in modern history. Its like will probably never be seen again.

This pattern shifted the competitive landscape significantly. Previously unheard-of companies from emerging markets were challenging well-established companies in developed markets. For example, in 2000 no one would have believed that Samsung, a South Korean company, could rival Sony, a Japanese company, in television production, but by 2013 it did. Building on that success, Samsung set its sights on making its Galaxy branded smartphones and tablets the devices of choice for Americans in competition with Apple iPhones and iPads. In October 2013, Samsung overtook Apple as the most profitable smartphone company in the Global Brand Simplicity Index. For Apple, this meant rethinking its design to regain market share in the US and other markets; for Samsung, it meant maintaining its design to enable it to grow further in the US and other developed markets.

Another example of emerging-market companies extending their reach is Lenovo, a Chinese computer technology company. It was established in 1984 by 11 computer scientists in Beijing and by 2004 had a 25% market share in

China. In May 2005 it acquired IBM's personal computing division, giving the company a global reach. By July 2013 it had overtaken major US rivals such as Hewlett-Packard and Dell in the global PC market. With a desire to extend from PCs into other markets, notably smartphones and products such as computer servers and storage systems, in early 2014 Lenovo acquired IBM's low-end server business and Google's Motorola Mobility handset operations.

Political changes

The confirmation of Ji Xinping as China's president in March 2013 led many Western organisations that had operations in the country to rethink their strategies. A wide-ranging anti-corruption campaign initiated by China's new president resulted in big reductions in gift giving of drinks such as *baiju*, produced by Shui Jing Fang, in which Diageo had an almost 40% share, and a significant drop in profits for the multinational drinks company.

Nigeria, first on the *Wall Street Journal*'s 2014 Frontier Markets Sentiment Index, a list of emerging markets attracting the most attention from US and European multinationals, also proved difficult for Diageo. In this instance, rising inflation meant less disposable income, leading to a 9% fall in sales. Responding to this, and altering aspects of its organisation design in the process, Diageo lowered prices and launched cheaper brands.

Social changes

As noted above, changes in consumer patterns, habits and expectations have a marked effect on organisations. From 2010, companies entering emerging markets with iconic developed-market brands had to rethink their strategies, as consumers began to favour national brands over international ones. In China, for example, Xiaomi and Huawei started to produce world-class smartphones, and Sany's excellent diggers out-competed Hitachi and Caterpillar. Faced with a changing consumer market, some US and European companies left China altogether, among them Revlon, Best Buy, Yahoo! (all US) and Media Markt (German).

Internal context: corporate governance

There are two aspects to corporate governance. The first is the behaviour of corporations, as measured by performance, efficiency, growth, financial structure, and treatment of shareholders and other stakeholders. The second is

the framework established by law within which companies operate – the rules and regulations – together with financial, labour and other market practices.

Corporate governance is a crucial element in organisation design, especially as an organisation's board influences its design, whether board members are active, aiming to contribute value to the organisation, or passive, doing little more than ensuring regulatory compliance.

Corporate governance is a fast-changing aspect of organisational life. It has been moving up organisational agendas for various reasons since the early 1990s, following a number of corporate scandals or crises that led to board members taking action, often to replace a chief executive or other directors. The financial crash of 2008 focused renewed attention on corporate governance, with the spotlight falling on organisations that had taken excessive risks in pursuit of short-term results, and had employee incentive schemes that encouraged, at least in part, the taking of these risks.

Beyond the scandals and crises (themselves a symptom of weak organisation design), other factors have led to governance issues coming to the fore:[7]

- The private, market-based investment process – underpinned by good corporate governance – is now much more important for most economies than it used to be.
- Because of technological progress, liberalisation and opening up of financial markets, trade liberalisation and other structural reforms, the allocation within and across countries of capital among competing purposes has become more complex, as has monitoring of the use of capital.
- The mobilisation of capital is increasingly one step removed from the principal owner, given the increasing size of firms and the growing role of financial intermediaries. The role of institutional investors is growing in many countries, with many economies moving away from pay-as-you-go retirement systems.
- Programmes of deregulation and reform have reshaped the local and global financial landscape.
- International financial integration has increased, and trade and investment flows are increasing.

All this has led to board members paying closer attention to their role in providing their organisations with strong and appropriate direction and oversight. This in itself has given rise to organisation design work that reflects the measures of corporate governance that are becoming parts of organisational reporting.

The International Finance Corporation (part of the World Bank Group) has a comprehensive approach to assessing the health of an organisation's corporate governance. It offers a set of tools for helping various types of organisations – listed companies, family or founder-owned companies, financial institutions, state-owned enterprises and privatised transition economies – develop their corporate governance.

In carrying out their role, board members have to engage in some or all of the following activities:[8]

- Approving a corporate philosophy and mission.

- Selecting, monitoring, evaluating, compensating and – if necessary – replacing the CEO and other senior managers, and ensuring management succession.

- Reviewing and approving management's strategic and business plans, including developing a depth of knowledge of the business being served, understanding and questioning the assumptions upon which such plans are based, and reaching an independent judgment as to the probability that the plans can be realised (referred to as "constructive engagement" in strategy).

- Reviewing and approving the corporation's financial objectives, plans and actions, including significant capital allocations and expenditures.

- Reviewing and approving transactions not in the ordinary course of business (if the transaction would cause the disappearance of the corporation or the sale of all its assets, then only the board can make this decision; it may not be delegated to a committee or to management).

- Monitoring corporate performance against the strategic and business plans, including overseeing the operating results regularly to evaluate whether the business is being properly managed.

- Ensuring that the corporation has in place systems to encourage and enable ethical behaviour and compliance with laws and regulations,

auditing and accounting principles, and the corporation's own governing documents.

- Assessing its own effectiveness in fulfilling these and other board responsibilities (subject to minimum statutory requirements such as quorum requirements for meetings under state corporation law).
- Performing such other functions as are prescribed by law, or assigned to the board in the corporation's governing documents.

This list shows how integral board members' involvement is to much organisation design work, not least because they are guardians of their organisation's future. For this reason, careful selection of board members is essential, but many organisations find this difficult. For example, the 2011 Corporate Board of Directors Survey found that 51% of directors thought it was moderately difficult and a further 20% thought it was extremely or very difficult to gauge whether a prospect would be a good addition to the board.[9]

Just as for programme steering groups (see Chapter 4), getting a good governance board requires assembling the right mix of people. Murray Steele, an experienced chairman and non-executive director, offers some suggestions:[10]

If I was chairman of a financial institution and I've got six nonexecs, I would want at least three, probably four, to have good technical understanding, but I wouldn't want all six to. Otherwise, there's a danger they won't ask a question because it's so obvious.

It's about team dynamics and harmony. If you're someone who likes to get things by the throat and not let go till you've either got the answer or the victim is dead, it's going to destabilise the board. But if you've got brains you'll know when to push but then stop if you realise everybody is looking at you. Judgment is a big part of it.

Equally, you've got to put the executive on their mettle so they know they're not going to get an easy ride.

The role and level of involvement of board members in organisation design projects can be determined through stakeholder analysis (see Chapter 6). Although this section is concerned with corporate governance, the principles and frameworks are equally applicable to programme governance (see Chapter 7).

Internal context: psychological contracts

Tony Hsieh of Zappos, an online retailer, says:[11]

So many people when they go to the office, they leave a little bit of themselves at home, or a lot of themselves at home. And while there's been a lot of talk over the years about work–life separation or work–life balance, our whole thing is about work–life integration. Because it's just life – and the ideal would be if you can be the same person at home as you are in the office and vice versa.

Responsiveness to changes in the employer/employee relationship is another area requiring continuous design capability. Changes in the labour market across the world mean that employees want to gain value from a better work–life balance and employers want to gain value in workforce flexibility. These twin wants are resulting in changes to both the implicit psychological contract (that is, "the perceptions of the two parties, employee and employer, of what their mutual obligations are towards each other") and the explicit employment contract between employers and employees.

The psychological contract is something that is read between the lines of the employment contract and is then interpreted by the employee as something that the employer promises. What individuals read varies from person to person, is highly subjective and, again unlike an employment contract, is not legally binding. In spite of this, the implied psychological contract can have a strong influence on employee behaviour, well-being, attitudes and performance:[12]

For example, an employee can feel let down about some issue at work and take a day off. Not being inclined to go to work can be due to a number of factors, such as wanting to get back at the organization for something it has done or not done for you, so that you don't feel so committed to the organization, or you feel demoralized about your job. When an employee believes that the organization has failed to deliver its promises on a regular basis, he or she will question whether it makes sense to continue contributing to that organization or whether it might be better for them to move on to another.

Employers are offering explicit and binding job contracts in many

different forms. The Chartered Institute of Personnel and Development (CIPD), the UK professional body for HR and people development, lists those in common practice:[13]

- Part-time working – work is generally considered part-time when employers are contracted to work anything less than full-time hours.
- Term-time working – a worker remains on a permanent contract but can take paid/unpaid leave during school holidays.
- Job-sharing – a form of part-time working where two (or occasionally more) people share the responsibility for a job between them.
- Flexitime – allows employees to choose, within certain set limits, when to begin and end work.
- Compressed hours – compressed working weeks (or fortnights) do not necessarily involve a reduction in total hours or any extension in individual choice over which hours are worked.

The central feature is reallocation of work into fewer and longer blocks during the week.

- Annual hours – the total number of hours to be worked over the year is fixed, but there is variation over the year in the length of the working day and week. Employees may or may not have an element of choice over working patterns.
- Working from home on a regular basis – employees regularly spend time working from home.
- Mobile working/teleworking – permits employees to work all or part of their working week at a location remote from the employer's workplace.
- Career breaks or sabbaticals – extended periods of leave (normally unpaid) of up to five years or more.
- Zero-hours contracts – individuals have no guarantee of a minimum number of working hours, so they can be called upon as and when required and paid just for the hours they work.

Although the relationship between employment and psychological

contracts is complex, designing as much flexibility into the legal contracts as possible and carefully managing the implicit promises of the psychological contract contribute to an organisation's ability to improve continuously.

Internal context: workforce demographics

Up to 2030, the worldwide pool of young workers (aged 15–24) will diminish markedly in advanced economies, and simultaneously there will be a striking increase in the number of people aged over 55 (see Figure 9.2).

Assuming that in most advanced economies people over the age of 55 will continue to work, it is likely that by 2030 this older worker pool will account for much of these economies' labour-market growth. In the UK, for example, the population aged 65 and over is projected to increase by 42% in the period to 2030, and the population aged 16–64 is expected to grow by only 3%. However, the number of economically active people aged 65 and over is projected to increase by about 30%.

FIG 9.2 **Increasing numbers of older workers in the labour force** %
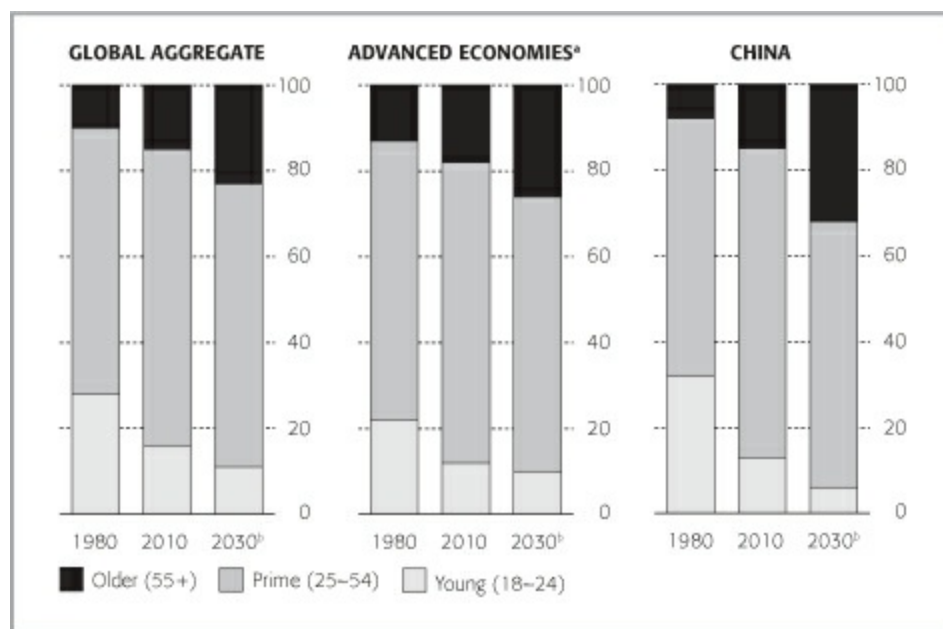
a   Includes 25 countries from the young advanced, ageing advanced and southern Europe clusters. b Estimate.

Source: Dobbs, R. *et al.*, "The world at work: jobs, pay and skills for 3.5 billion people", McKinsey Global Institute, June 2012

Erik Brynjolfsson and Andrew McAfee, both professors at MIT, among

others, suggest that alongside the changing global age profile, there will be mismatch between the jobs available and the capability of people to do them. In a 2014 book, *The Second Machine Age*, they point out that new technologies will require very different kinds of work and work skills. The challenge is for training and education curriculums to change focus swiftly to ones that are oriented to people living and working alongside the smart new machines.

The number of jobs requiring high skill is likely to increase, but the number of people with this skill level will decrease. Advanced economies will need to act on several fronts to increase the number of high-skill workers (see Figure 9.3).

These demographic and educational shifts have significant implications for the design of organisations, in terms of leadership succession, knowledge transfer and workforce productivity. This is likely to continue as emerging talent shortages among younger employees exacerbate the problems. A report commissioned by IBM and the American Society of Training and Development in 2006 commented that human resources managers identified that:

> *Knowledge transfer, removing barriers to learning for mature workers, and meeting the needs of the next generation of employees [are] their greatest challenges related to changing workforce demographics. Yet, less than half think their organisations are doing enough to tackle these challenges, and only about 40% believe their companies are addressing their overall skill and capacity needs over the next three to five years. These findings suggest that many organisations remain unprepared for workforce shifts of potentially "tectonic" magnitude.*

FIG 9.3 **Addressing the high-skill worker shortage**

Million workers, 2020 estimate

18.0   8.6

3.2

2.8

3.5

Shortage of tertiary-educated workers   Improvement in educational attainment[a]   Prime working-age women[b]   Older[c]   Other levers

Increase in participation rates
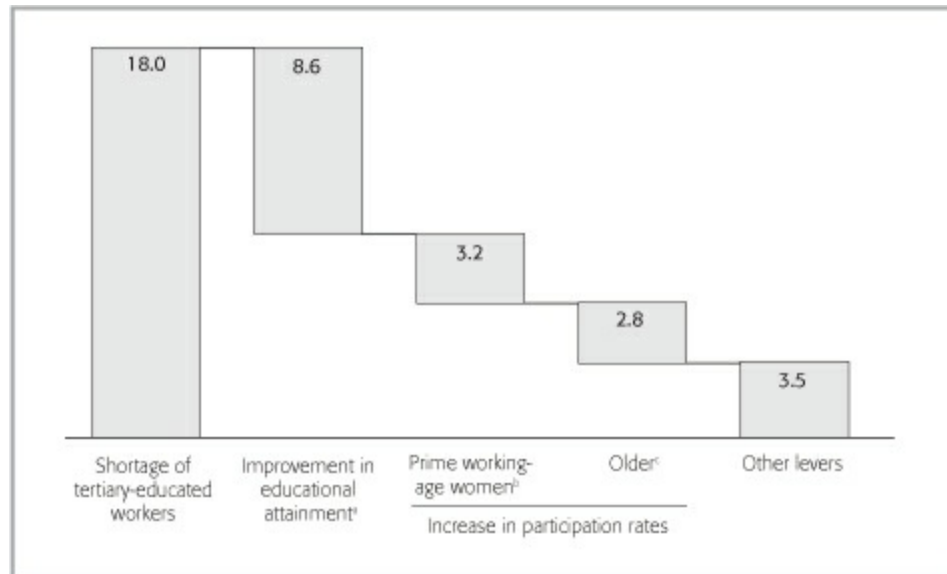
a   Improvement in tertiary educational attainment rates among 25–34 year-olds (those aged 15–24 in 2010) at 2.5 times the historical pace, to reach around 45% attainment by 2020. b Prime working-age women's participation rate grows at 2 times the historical rate of increase, to reach 85% in 2020. c Older worker participation rate rises at 2.3 times the historical rate of increase, to reach 38% in 2020.

Note: Numbers may not add due to rounding.
Source: Dobbs, R. *et al.*, "The world at work: jobs, pay and skills for 3.5 billion people", McKinsey Global Institute, June 2012

According to some analysts the outlook for the future is worrying. They predict that the ageing population and the gap between skills and employment opportunities will lead to slow world development, increasing income disparity between rich and poor people, a rise in job insecurity and an overall drop in standards of living in advanced economy countries.[14]

Others suggest a rosier future. In 2013, for example, CEDEFOP (the European Centre for the Development of Vocational Training) noted:[15]

Slowly but steadily, the attitude towards population ageing is changing in Europe. Early reports had described it as a demographic time bomb with negative consequences for economies and societies. But these changes are increasingly seen as harbingers of opportunity and the emerging "silver economy" as a driver of future growth.

As a result, firms are adapting their employment policies and practices to meet the desires of older workers. To acknowledge the companies that do this well, the American Association of Retired Persons (AARP) biennial

programme recognises employers with exemplary practices for recruiting and retaining mature workers. One of the 50 highlighted in 2013 was Perkins Coie, an international law firm, which encourages older workers to engage in training and development throughout their career; it offers courses such as Communicating in the World of Social Media and Retirement Planning. The company does not have a mandatory retirement age and employees remain eligible for benefits as long as they work at least 18.75 hours per week.

In the UK, McDonald's is known for employing older workers. It found that levels of customer satisfaction were on average 20% higher in restaurants that employ staff aged 60 and over:[16]

> *A survey of McDonald's restaurant managers revealed the reasons behind the customer satisfaction boost delivered by later life workers:*
>
> - *Over two-thirds (69%) said later life workers empathise with and connect well with customers.*
> - *Almost half (47%) cited later life workers' ability to go the extra mile to deliver the best possible customer service.*
> - *44% believed later life workers brought mentoring skills to the workplace, helping younger colleagues develop and mature.*

Building the capability for continuous design

Leaders need to accept that their current organisation design will inevitably give way to a future design. They should also understand that designs must be dynamic and that building adaptive capability into any design is a necessary part of the process. Unfortunately, they rarely do. For a number of reasons many leaders:

- do not know enough about the processes and theories for designing effective organisations and fail to appreciate the range of options open to them;
- choose designs that are more political and more complex than they need be, less than optimal because they exclude important knowledge crucial to the success of a new organisational design, and resisted when implemented;
- work on a design that solves a specific symptom rather than the

underlying cause giving rise to it (identifying the root cause of issues and responding to these is crucial to the success of an organisational design project);

- separate a new design from their organisation's strategy and external environment, when they should realise that a good organisation design is a means for implementing strategy and can also open up new strategic options;

- fail to recognise how much of their time and active involvement is required in organisational design work and cannot delegate their role to consultants;

- overlook the fact that organisational design is a multi-stage process during which the organisation must continue to operate and change, so the design process must synchronise with the dynamic of the organisation.

The capacity to overcome some of these leadership obstacles, to execute in the present and adapt to the future, requires working on the more agile principles of iteration, test and learn, and designing with employee participation; investing in formal and informal research and development on workforce trends; and enabling adaptive capabilities in the workforce particularly around rewards, recognition and flexible working policies.

Working on the shelf-life principle

This means acknowledging that an enterprise has a shelf life in a particular form and can last only so long before it becomes obsolete. In *A History of American Business*, C. Joseph Pusateri lists the 25 largest US corporations in 1917, 1957 and 1986.[17] Of the 25 corporations in the 1917 list, 13 made it into the 1957 list. Only seven – if US Steel and USX are treated as the same firm – made it into the 1986 list. Only 12 firms on the 1957 list made it to the 1986 list:[18]

> *At the top of the 1917 [Forbes] list is U.S. Steel. When formed through the merger of eight large steel firms in 1901, U.S. Steel became the world's largest private business: it had a total capitalisation of $1.4 billion and accounted for 65.7% of all steel sales in the United States. By 1917, U.S. Steel had assets valued at over $2.4 billion, more than four*

times the assets of Standard Oil of New Jersey (Exxon), the next largest corporation. But U.S. Steel's market share was down to 45%. Forty years later, U.S. Steel was only the third largest company and its market share was less than 30%. Today U.S. Steel is no longer U.S. Steel but USX, and has a market share in steel of less than 10%, receives more revenue from petroleum than steel, and is number 121 in the list of the largest U.S. corporations, ranked by assets. The moral of the U.S. Steel story applies to all corporations: no firm is impervious to market competition.

Of the original 100 companies in 1917, only one remained in 2014. It is GE: the sole survivor.[19]

One way of thinking about shelf life is in terms of an organisational life cycle. Typically, it takes the form of an S curve (see Figure 9.4), sometimes called the sigmoid curve.

There is a theory that the organisational maturing and decline cycle can be interrupted by jumping into another sigmoid curve at an appropriate point, thus avoiding the inevitability of decline. The jump is usually made at the midpoint of the maturity phase before the upward curve reaches its peak and starts to head down (see Figure 9.5). However, this is hard to do for two reasons: it is difficult to judge when an organisation is at the midpoint; and when things appear to be going well, as they typically do in the first half of the maturity phase, there is usually little incentive to change.

FIG 9.4 **The sigmoid curve and organisational life cycle**
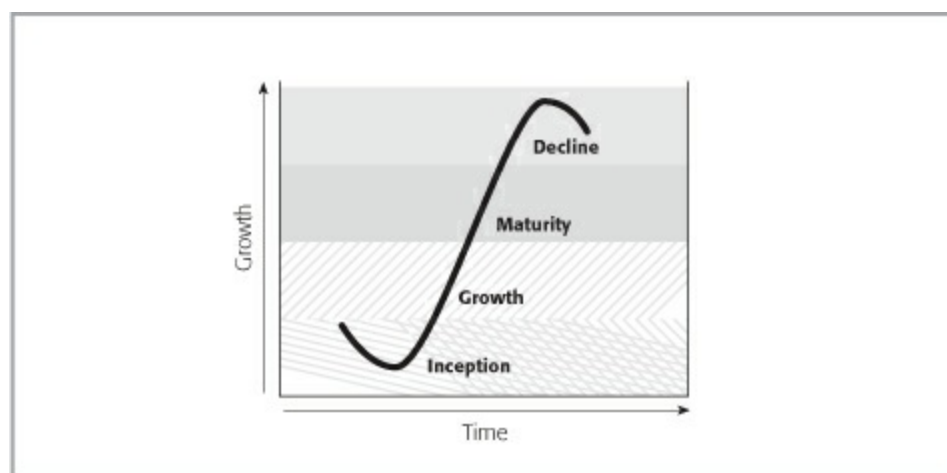
Source: Kerwin W. Steffen Associates

It therefore requires long-term planning: for example, the type of scenario planning that was developed by companies such as Shell in the 1970s. Glen Meakem, founder and CEO of FreeMarkets (acquired by Ariba in 2004), which created business-to-business online auctions, was asked what he felt when he realised that his business model had become out of date:[20]

It was painful, but whether you're running a start-up or an established company, there are turning points where you need to assess critically how you're positioned and ask, "Is the market coming toward us or running away from us?" And thank God we did what we did. And it's hard, because you need to move. Your board and your investors and everybody in the company need to face up to it. We made a big bet and we just ran with it. As CEO, you can't be scared of making bold decisions. It's tough, but you have to be able to do it.

Making a decision to review an organisation's core values is equally tough. One organisation which regularly reviews its core values is IAP2 (International Association for Public Participation), a non-profit organisation that working "through its members, helps organisations and communities around the world improve their decisions by involving those people who are affected by those decisions".[21] It has a set of core values that define the organisation's public participation practice.

FIG 9.5 **Leaping the sigmoid curve**
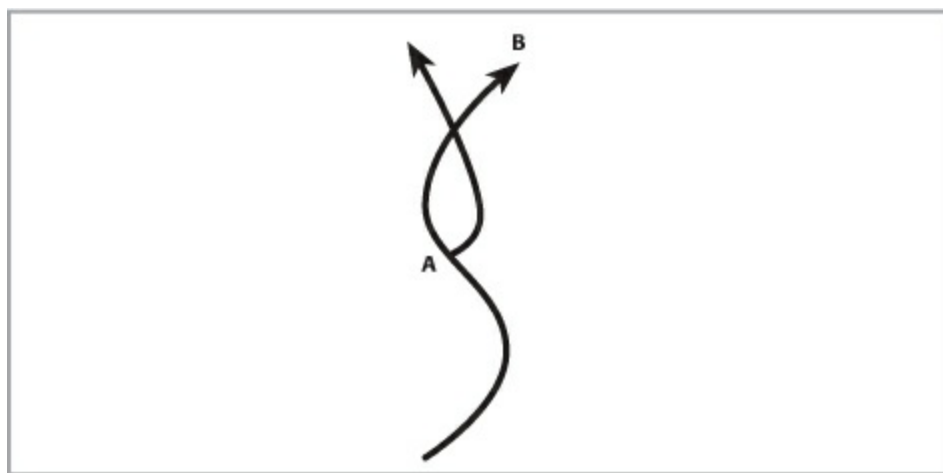
IAP2's board of directors has adopted a policy of formally reviewing the association's core values every five years with the objective of maintaining

their relevance in changing contexts. To do this it has established a core value working group, inviting contributions to the discussion on core values from its members around the world. During 2006, after significant participation and input from members, the decision was made to reword Core Value 1 from:

The public should have a say in decisions about actions that could affect their lives.

to:

Public participation is based on the belief that those who are affected by a decision have a right to be involved in the decision-making process.

This may not appear to be a significant shift, but the impact of the change affects many aspects of IAP2's organisation as it focuses on defending the "right" of the public to be involved in the decision-making process rather than supporting their "say" in it.

Difficult as it is to leap to a new sigmoid curve and assess core operating values for continuing relevance, these two activities contribute to thinking of an organisation design as having a shelf life. With this thought it becomes easier to move towards new and improved organisation designs.

Investing in data analysis

Data analysis is critically important if organisations are to be capable of adapting. Most large enterprises have their own data analytic groups keeping an eye on the present and the future, usually in a combination of three ways: by using a variety of techniques to look ahead; by assessing consumer behaviour, often through digital data; and by analysing economic, financial and other data. Nicola Millard, a member of the foresight and futurology group at BT, a telecommunications company, explains her role:[22]

People ask if I have a crystal ball. I do, but it doesn't work, so I have to work slightly harder for my living. Put simply, a futurologist is someone who simply studies the future. I'm a psychologist by background so I'm used to developing theories then testing them in present-day situations. But futurology isn't a normal –ology, so you can't do that. Ideas will only

be proved right in the future. I met a futurologist the other day who called himself a "trend DJ" and I think that's a nice way of describing what futurologists do. We gather trends and try and figure out what's going to become big and what's going to die out. Then we ask: what if this does happen? What would be the impact on business?

In addition to in-company data analysis, a number of profit and non-profit organisations have been established for those seeking insights into what might lie ahead. In the UK, for example, Demos, the New Economic Forum and the Foreign Policy Centre are three mentioned in an article in the *Guardian*, a UK newspaper, listing 20 of the UK's top think-tanks.[23] Research also occurs through open-source, crowdsourcing and similar arenas, where consumers or others play an active role in process redesign, product development strategies, new channel development and solving complex problems. Linux software development is an example of open-source development (see www.linux-foundation.org).

Lego, a toy company, is an example of an organisation that has adopted crowdsourcing for its product innovation:[24]

Lego has become a mammoth of the toy industry, but a nimble mammoth, one that seems quite able to adapt to the climate change of product design in the age of crowdsourcing. After prototyping, testing, and refining their concept for three years in Japan, Lego has recently gone global with the beta-version of its Cuusoo crowdsourcing platform. Their simple objectives were to increase the number of product ideas while improving on their customer engagement.

If they are to continuously adapt, organisations must be future aware, and then use not just their own expertise but the input of others (amateurs, consumers and partners) to help them work through ways of meeting the future in good shape.

Enabling adaptive capabilities in the workforce

It is not only at an organisational level that adaptive capability needs to be generated and regenerated. Individual employees must also be able to meet the future with equanimity and imagination. One way of encouraging this is to minimise the number of behavioural rules necessary to keep the enterprise

operational yet adaptive.

In 1986 Craig Reynolds was looking for a way to model the flocking behaviour of birds. He was looking for a small set of behavioural rules to achieve the desired result and managed to come up with just three:[25]

- Separation: steer to avoid crowding local flock mates.
- Alignment: steer towards the average heading of local flock mates.
- Cohesion: steer to move towards the average position of local flock mates.

These three rules are sufficient to generate flocking behaviour. Note that:

- there is no leader who says "follow me" – at any time any flock member could be the leader;
- each member follows the same rules – there is no hierarchy of rules;
- each member is concerned only with what its neighbours are doing – there is no attempt to try to comprehend the behaviour of the whole;
- the rules are not directly concerned with global-level behaviour. The appearance of flocking is an "emergent" property resulting from all of the mutual interactions between members.

FIG 9.6 **The flocking behaviour of birds**
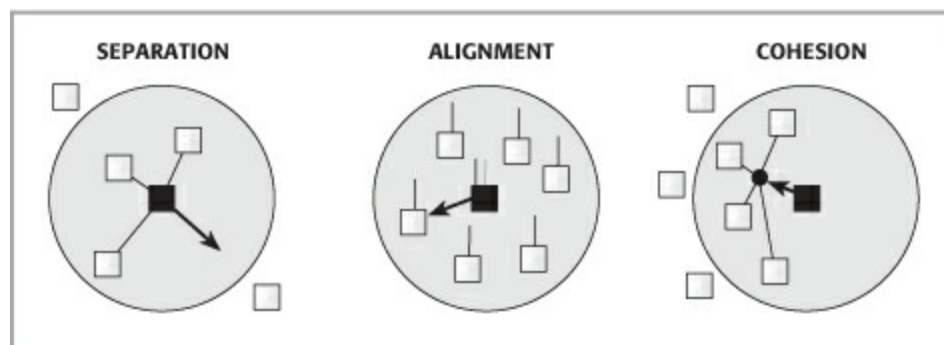
Source: www.red3d.com/cwr/boids/

Such simple rules when applied to an organisation make for flexibility, autonomy and adaptability without losing overall control. They make organisational behaviour visible, and once articulated it becomes possible to discuss whether the behaviours they generate are the ones the organisation

wants or needs in order to keep adapting or whether design work should aim to change them.

CASE STUDY 8

How to keep an organisation continuously designing

Margaret Johns, vice-president of a forecasting firm, faced the conference. Her audience of business administration students had invited her to present her views on how organisations could meet the future. Her strongly held view was that businesses have to have the capacity to be continuously transformable. This is what she said:

> *We're not living in a fairy story where the frog gets turned into a prince and that's it. We're living in a world where what we are today is not what we're going to be tomorrow, and that's different again from what we're going to be the following day. This requires a different way of thinking, but unless we take that path our company will be in trouble.*
>
> *I learned this early in my career when I worked for Cummins Engine Company. Theirs is an interesting story that is still continuing. In the early 1980s, when I joined Cummins, it was faced with declining sales, new foreign competition and the need for its diesel engines to meet higher environmental standards. It was mature in its market, sales were declining and a number of other things were going wrong. It seemed to be entering its death throes and analysts were beginning to say so.*
>
> *In the late 1980s three options were presented to the board of directors:*
>
> 1. *To sell the company.*
> 2. *A "harvest strategy", that is, consciously running current production out to maximise cash flow.*
> 3. *To redesign the company with the goal of improving its product mix and manufacturing processes.*
>
> *Option three was the one recommended because it was felt that this was the only option that balanced the needs of the long-term shareholders with other stakeholders. Also, it focused the discussion on ways of developing new markets, products and organisational processes. But it was a risky strategy involving heavy investment and a long time lag before it would be possible to see any results.*

To cut a long story short, the firm was redesigned to achieve high productivity in new markets, including China and India, with new products in those markets. This was done by deploying techniques and processes around three areas: customer-led improvement; internally led improvement; and internal cultural change, benchmarking the firm against its main competitors. Although I left a year or two into the new design, I stayed in touch with people there and kept up to date with progress, so it did not come as much of a surprise to me when I read in the press:[26]

Investing in local manufacturing. Grooming managers for the long term. Exporting when it makes sense, and tapping local engineering brainpower. Many multinationals are now emulating these strategies in China and India. Cummins figured it out well before the competition.

During my time at Cummins I learned six things that have informed my style of operating over the years:

1. *A strong and involved board of directors and governance process is crucial to success. At Cummins we were able to work with the directors and get their support to take a risky decision, which they stuck behind in the long term. It is clear to me that there is real value in developing governance standards and approaches.*

2. *Business models must adapt to changing circumstances – you have to keep reviewing the design. Taking the principle that form follows function, as the function of the organisation changes so must its form. In the Cummins case the function adapted to being successful in new markets with new products; thus the form had to follow suit. Too often companies get stuck in one design and think that's it for all time.*

3. *Every single day you have to keep things going and change things. Thinking in terms of projects and initiatives implies a beginning and an end point and will not breed a successful organisation. We had to simultaneously keep Cummins going and manage a new design implementation. We could not do that by thinking too much in terms of projects and initiatives; we had to think of it as a culture and mindset change that imbued everything we did, every day, all the time. I have transferred this thinking into my daily life: each day I try to change either one aspect of a process or the environment it exists in. For example, today I reordered the way I hang clothes in my wardrobe to make the dressing process quicker. Tomorrow, I'm going to change the light bulb in my wardrobe so I can see the colours better.*

   Successful organisations learn how to interrupt their rituals and habits and look for day-to-day improvement possibilities. Trying out new ways develops adaptability and minimises the fear of change.

4. *Enabling people to be part of the next generation of the company*

requires involving them in what is going on, listening to their ideas, and helping them live their whole lives and not just their work lives. This develops strong employee/employer bonds – the psychological contract holds firm. Helping staff "run hard and dream big" (in Cummins's vocabulary) because they are contributing to their future, the organisation's future and the planet's future is a philosophy I've tried to practice in all the subsequent enterprises that I've worked in.

5. *People who can run hard and dream big are generally curious and innovative and these capabilities need managerial nurturing. This is hard to do in many organisations that formalise innovation in things like R&D units. To my mind this doesn't work. Humans are naturally curious and inventive – look at the way a child constantly asks "Why?". Too often organisations squash these capacities even though they are human enterprises. It is hard to genetically code them into forward thinking without having a regenerative culture that comes from empowered people finding expression every day.*

6. *I discovered that people and organisations benefit from a diverse workforce where differences spark positive energy. In my current organisation, demographic changes are bringing some surprises. For example, younger people are now managing people much older than themselves. Simultaneously, we are consciously recruiting people with a great deal of experience and they are able to mentor and coach the younger ones. No one can claim technology expertise as we are all getting to grips with wave upon wave of new technologies.*

So what am I telling people who come to me for career advice? Steve Jobs said it well: "You've got to do what you love." The highest-performing and best-run organisations help people do that. Look for companies that intentionally morph and transform, honour their implicit agreements with people and work responsibly for the future good.

Reflections on the case study

Johns's story illustrates how her early work experiences in transforming an organisation helped shape her thinking about how to keep the organisations that she subsequently worked in continuously changing. She chose to work in a forecasting firm as it provided a match to her interests and skills. In her position she can model the way she advises the leaders in her client companies to work. She knows that she must scan her external context for new businesses and models that might catch her unawares if she is not

careful. Thus her business strategy is focused on opening new markets even as she operates in existing markets. She is aware of her company's responsibility for the future and through various means is assiduous in helping her staff live whole lives, thus keeping the psychological contract strong. She is an advocate of strong and involved governance used wisely. The changes in the demographic profile lead to recruitment and retention challenges, but she is astute enough to see the value in having a diverse workforce where individuals are encouraged to use their strengths to help solve their clients' problems. For the most part she is doing a job she loves in an organisation that she is hopeful will show its ability to leap the S curve and continuously change to meet a successful future.

Tools for the case study

Keeping an organisation leaning into the future requires a tolerance (and even a seeking out) of chaos combined with a certain discipline in intentionally and continuously changing the organisation's design. Two tools help with this.

Good to Great Diagnostic Tool

This tool was developed by Jim Collins and is available online (www.jimcollins.com). It is a four-stage tool that assesses an organisation's capability to meet the future successfully.

Good to Great Diagnostic Tool

Our research shows that building a great organisation proceeds in four basic stages; each stage consists of two fundamental principles:

STAGE 1: DISCIPLINED PEOPLE

Level 5 Leadership. Level 5 leaders are ambitious first and foremost for the cause, the organisation, the work – not themselves – and they have the fierce resolve to do whatever it takes to make good on that ambition. A Level 5 leader displays a paradoxical blend of personal humility and professional will.

First Who … Then What. Those who build great organisations make sure they have the right people on the bus, the wrong people off the bus, and the right

people in the key seats before they figure out where to drive the bus. They always think first about "who" and then about what.

STAGE 2: DISCIPLINED THOUGHT

Confront the Brutal Facts – the Stockdale Paradox. Retain unwavering faith that you can and will prevail in the end, regardless of the difficulties, AND AT THE SAME TIME have the discipline to confront the most brutal facts of your current reality, whatever they might be.

The Hedgehog Concept. Greatness comes about by a series of good decisions consistent with a simple, coherent concept – a "Hedgehog Concept". The Hedgehog Concept is an operating model that reflects understanding of three intersecting circles: what you can be the best in the world at, what you are deeply passionate about, and what best drives your economic or resource engine.

STAGE 3: DISCLIPINED ACTION

Culture of Discipline. Disciplined people who engage in disciplined thought and who take disciplined action – operating with freedom within a framework of responsibilities – this is the cornerstone of a culture that creates greatness. In a culture of discipline, people do not have "jobs"; they have responsibilities.

The Flywheel. In building greatness, there is no single defining action, no grand programme, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembles relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond.

STAGE 4: BUILDING GREATNESS TO LAST

Clock Building, Not Time Telling. Build an organisation that can adapt through multiple generations of leaders; the exact opposite of being built around a single great leader, great idea or specific programme. Build catalytic mechanisms to stimulate progress, rather than acting as a charismatic force of personality to drive progress.

Preserve the Core and Stimulate Progress. Adherence to core values combined with a willingness to challenge and change everything except those core values – keeping clear the distinction between "what we stand for" (which should never change) and "how we do things" (which should never stop changing). Great companies have a purpose – a reason for being – that goes far beyond just making money, and they translate this purpose into BHAGs (Big Hairy Audacious Goals) to stimulate progress.

The diffusion of innovation and appropriate education methods

This tool provides a snapshot of the type of activity needed to keep an organisation's constituents moving along the adoption and adaptation curve (see Figure 9.7).

Summary

No organisation design could or should last forever. Indeed, it is better to think that any design is transitory and must have the built-in capability to continuously change without causing disruption to the operation of the enterprise.

Getting this right in an environment and context that has multiple challenges both internally and externally is hard. But certain approaches and techniques employed in the development and implementation of the design can help move things in the right direction.

FIG 9.7 **The diffusion of innovation and appropriate education methods**
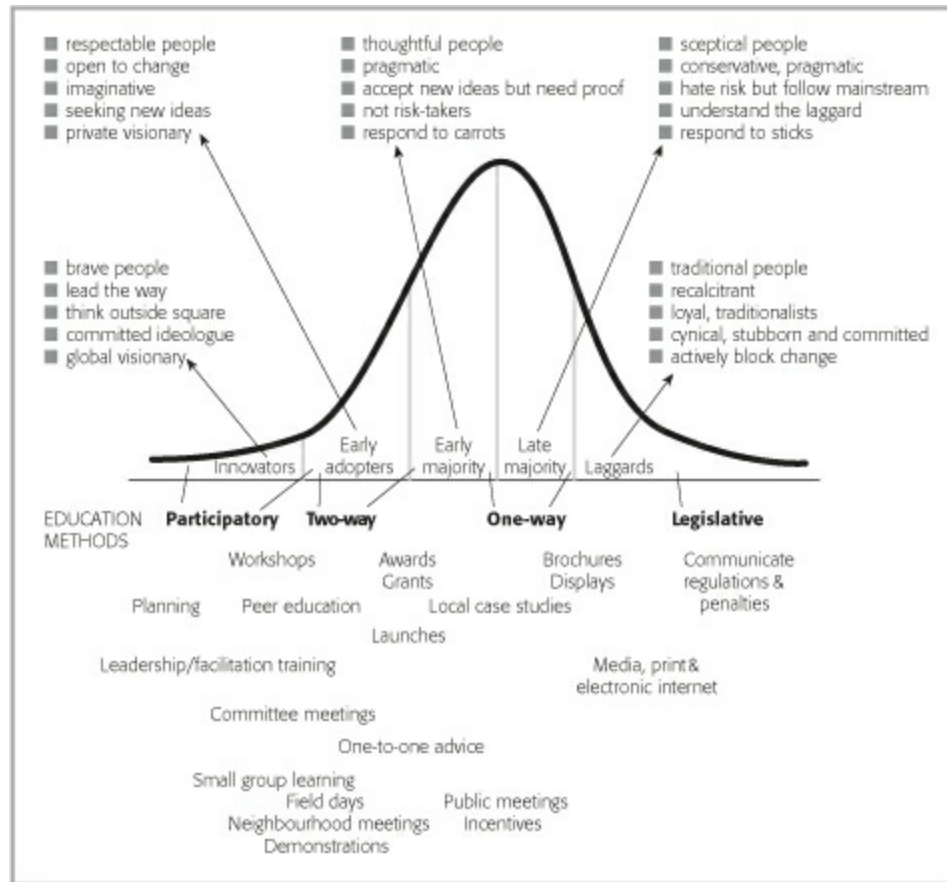
Source: © Real Options 2005. Adapted from Robinson, L., *Enabling Change* (www.media.socialchange.net.au/people/les) and Rogers, E., *The Diffusion of Innovations*, 4th edn, The Free Press, 1995 (www.valuebasedmanagement.net)

Since it seems that the forecast for most companies is continued chaos with a chance of disaster, learning to handle this successfully is a prerequisite for boards, leaders and the workforce. Otherwise they will simply have to accept the outcomes of not handling it.

Notes and sources

General

The URLs for the websites referred to in this book were correct and active at the time of going to press. However, the author and the publisher cannot guarantee that they will remain active or that the content they relate to will not change.

The Economist house style is to use British spelling. In this book, US spelling has been retained in quotations from US sources.

All unattributed charts are by the author.

1   Introducing organisation design

Notes

1   Scott, S., "Start Up Failure Rates: The Definitive Numbers", *Small Business Trends,* December 17th 2012 (www.smallbiztrends.com).
2   Reingold, J., "Still Angry After All Those Years", *Fast Company*, October 2003 (www.fastcompany.com).
3   Senge, P., *The Fifth Discipline: the Art and Practice of the Learning Organization,* Doubleday, 2006.
4   Stacey, R., *The Tools and Techniques of Leadership and Management: Meeting the Challenge of Complexity*, Routledge, 2012.
5   Lawrence, E., *Strategic Thinking: A Discussion Paper*, Research Directorate, Policy, Research and Communications Branch, Public Service Commission of Canada, 1999.
6   Hamel, G., "Innovation Democracy: W.L. Gore's Original Management Model", September 23rd 2010 (www.managementexchange.com).
7   Conrad, L., "Japan One Year Later: The Long View On Tech Supply Chains", *Forbes,* March 13th 2012 (www.forbes.com).
8   Christensen, C., "Meeting the challenge of disruptive change", *Harvard Business Review*, March–April 2000.
9   Suchman, A.L., "Organizations as machines, organizations as conversations: two core metaphors and their consequences", 2007 (http://c.ymcdn.com).
10 Andersen, J.A. and Jonsson, P., "Does Organization Structure Matter? On the Relationship Between Structure, Functioning and Effectiveness", *International Journal of Innovation and Technology Management*, Vol. 3, No. 3, 2006, pp. 237–63.
11 Gupta, R. and Wendler, J., "Leading Change: an interview with the CEO of P&G",

McKinsey Quarterly, August 2005.

12 Fung, B., "Investors want Microsoft's new CEO to kill Xbox, Bing and Surface", *Washington Post*, February 5th 2014 (www.washingtonpost.com).

13 Weisbord, M. and Janoff, S., "Faster, Shorter, Cheaper May Be Simple; It's Never Easy", *Journal of Applied Behavioral Science*, Vol. 41, No. 1, 2005.

14 Brown, N. and Agrawal, T., "Kodak emerges from bankruptcy with focus on commercial printing", Reuters, September 3rd 2012 (www.reuters.com).

Sources

Centre for Retail Research, "Who's Gone Bust in Retailing 2010-14?", January 2014 (www.retailresearch.org).

W.L. Gore & Associates, "A Team-Based, Flat Lattice Organization", 2014 (www.gore.com).

Huczynski, A. and Buchanan, D., *Organization Behaviour*, 8th edition, Pearson Education, 2013.

Nadella, S., e-mail to employees on first day as CEO, February 4th 2014 (www.microsoft.com).

Office for National Statistics, *Business Demography 2012*, London, 2013.

Royal Dutch Shell, *New Lens Scenarios*, 2013 (www.shell.com).

Thorburn McAllister, *FTSE 350 Board Review 2013*, Thorburn McAllister/University of Southampton Management School.

2   Models, approaches and designs

Notes

1 Magretta, J., "Why Business Models Matter", *Harvard Business Review*, May 2002.

2 Preston, R., "'Virtual mannequins' promise better fit for online shoppers", BBC News (www.bbc.co.uk).

3 Duryee, T., "Zappos' Tony Hsieh tells Playboy all about his platonic relationship with Amazon", *Geekwire*, April 16th 2014 (www.geekwire.com).

4 Rams, D., "Ten Principles for Good Design", Vitsoe (www.vitsoe.com).

5 Life is Suite, "Steve Pinetti: Kimpton's Creative Spirit", March 25th 2013 (www.lifeissuite.com).

6 Watkins, M., "Social Media Can Dent Reputations", *Financial Times*, November 8th 2013 (www.ft.com).

7 Melberg, C., "CVS Sets Example for Social Media Strategy", *Social Media Today*, February 6th 2014 (www.socialmediatoday.com).

8 Gneiser, G., *10 Best TED Talks on Storytelling*, January 8th 2013 (www.drewgneiser.com).

9 St. George, A., "Leadership lessons from the Royal Navy", *McKinsey Quarterly*, January 2013 (www.mckinsey.com).

10 Goold, M. and Campbell, A., "Do you have a well designed organization?", *Harvard*

Business Review, March 2002.

Sources
Adams, M.G., *Change Your Questions, Change Your Life: 10 Powerful Tools for Life and Work*, 2nd edition, Berrett-Koehler, 2009.

Balanced Scorecard Institute, "About the Balanced Scorecard, Definitions" (www.balancedscorecard.org).

Box, G., "Robustness in the strategy of scientific model building", in Launer, R.L. and Wilkinson, G.N. (eds), *Robustness in Statistics*, Academic Press, 1979.

Bunch, J., "Leadership in Holacracy", Zappos Insights, January 13th 2014 (www.zapposinsights.com).

Catering sales employee, Kimpton Hotels and Restaurants, November 15th 2003 (www.glassdoor.com).

Cisco, "Approaches to help ignite adoption of social collaboration", 2012 (www.cisco.com).

Holpuch, A., "CVS to stop selling cigarettes and other tobacco products", *The Guardian*, February 5th 2014 (www.theguardian.com).

Hsieh, T., "Holacracy", Zappos Insights, December 2013 (www.zapposinsights.com).

Intuit, "Catalyst: an Intuit Innovation Experience", January 13th 2013 (www.slideshare.net).

Social Media Today, "Webinar Replay Social Media & Organizational Change: Disruptor or Facilitator?", January 24th 2013 (www.socialmediatoday.com).

West, M., "Starbucks finally pays £5 million of UK tax for the first time in five years after six months of outrage despite £253 million profit in just three months", *Daily Mail*, June 23rd 2013 (www.dailymail.co.uk).

3 Organisational structures

Notes
1   Barinka, A., "IBM to Invest $1.2 Billion to Boost SoftLayer Cloud Services", *Bloomberg*, January 17th 2014 (www.bloomberg.com).

2   Vossoughi, S., "Today's Best Companies are Horizontally Integrated", HBR Blog Network, December 14th 2012 (www.blogs.hbr.org).

3   Lashinsky, A., "How Apple works: Inside the world's biggest startup", *CNNMoney*, August 25th 2011 (http://tech.fortune.cnn.com).

4   Mitra, S., "Thought Leaders in Mobile and Social: Marty Beard, CEO of LiveOps", One million by one million blog, October 25th 2012 (www.sramanamitra.com).

5   Isern, J. and Komm, A., *Reshaping Telco Organization to Meet the Industry's New Challenges*, McKinsey & Company, 2011.

6   Rogers, P. and Davis-Peccoud, J., "The Matrix Doesn't Have To Be Your Enemy", *Forbes*, September 12th 2012 (www.forbes.com).

7   Schwab, M., Star Alliance Speeches Presentations, "Star Alliance CEO Mark Schwab

speaks to the European Aviation Club", September 25th 2013 (www.staralliance.com).

8   Nike, *Corporate Responsibility Report*, 2013 (www.nikeresponsibility.com).

9   Senge, P., Scharmer, C.O., Jaworski, J. and Flowers, B.S., *Presence: Exploring Profound Change in People, Organisations and Society*, Nicholas Brealey Publishing, 2005.

10 Martin, M., "Sony CEO: restructuring is 'an ongoing process'", January 8th 2014 (www.vg247.com).

11 Copyright 1998 Richard M. DiGeorgio & Associates. All Rights Reserved (www.change-management.net).

Sources

De Geus, A., *The Living Company*, Harvard Business School Press, 1997.

Drucker, P., *Management: Tasks, Responsibilities, Practices*, Harper Business, 1993.

Morgan, G., *Imaginization: New Mindsets for Seeing, Organizing, and Managing*, Berrett-Koehler Publications and Sage Publications, 1997.

Simons, R., *Levers of Organization Design*, Harvard Business School Press, 2005.

4   Planning and sequencing the organisation design

Notes

1   Weisbord, M. and Janoff, S., op. cit.

2   Office of Government Commerce, Successful Delivery Toolkit (www.ogc.gov.uk). This website is a source of excellent practical information on running successful projects.

3   Paczkowski, J., "GE CEO Jeff Immelt's Big Data Bet", *All Things D*, May 29th 2013 (www.allthingsd.com).

4   Gertner, J., "Behind GE's Vision For The Industrial Internet Of Things", *Fast Company*, June 18th 2014 (www.fastcompany.com).

5   Chipotle, *Annual Report and Proxy Statement*, 2013.

6   Ghislanzoni, G. and Shearn, J., "Leading Change: An interview with the CEO of Banca Intesa", *McKinsey Quarterly*, November 2005.

7   Intercontinental Hotels Group, "Our stakeholder channels", 2014 (www.ihgplc.com).

8   Nordstrom, *Corporate Governance – Conduct*, February 26th 2014 (http://investor.nordstrom.com).

9   Davenport, T., *Big Data @ Work: Dispelling the Myths, Uncovering the Opportunities*, Harvard Business Review Press, 2014.

10 Knowledge@Wharton, "How LinkedIn Manages Hyper-growth over the Long-term", December 10th 2013 (http://knowledge.wharton.upenn.edu).

11 Verzera, S., "Liquid organizations: building the next evolutionary stage of anti-fragility", M-Prize: Digital Freedom Challenge, December 2013 (www.mixprize.org).

Sources

Associated Press, "Number of active users at Facebook over the years", May 1st 2013 (http://news.yahoo.com).

Bell, P., "My Life: Thea Green, Founder Of Nails Inc And MBE On Making It Work", *Huffington Post*, November 29th 2013 (www.huffingtonpost.co.uk).

Department for Business Innovation and Skills, *Guidelines for Managing Programmes: Understanding Programmes and Programme Management*, 2010 (www.gov.uk).

Knowledge@Wharton, "BP's Fiona MacLeod: A Change Agent Sees Change 'Addiction'", July 8th 2009 (http://knowledge.wharton.upenn.edu).

Lienert, P. and Klayman, B., "Meet New GM CEO Mary Barra, the 'Lifer' Who is Quietly Transforming the Company", *Business Insider*, January 12th 2014 (www.businessinsider.com).

Matsumoto, C., "Cisco's Secret Weapon", Lightreading, August 16th 2013. (www.lightreading.com).

Nakaso, D., "Q&A: LiveOps CEO Marty Beard, on call center technology, efficiency", *San Jose Mercury News*, June 20th 2014 (www.mercurynews.com).

Pirilla, C., "Has social media reached its saturation point?" Cision, June 23rd 2014 (www.cision.com).

5   Measurement

Notes

1   For a fascinating discussion on this, see Taleb, N.N., *Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets*, Random House, 2005 (reissued by Penguin, 2007).

2   Wieck, K., *Sensemaking in Organizations*, Sage Publications, 1995.

3   Miller, C., "In Google's Inner Circle, a Falling Number of Women", *New York Times*, August 22nd 2012 (www.nytimes.com).

4   Manjoo, F., "The Happiness Machine", *Slate*, January 21st 2013 (www.slate.com).

5   Suda, B. and Hampton-Smith, S., "The 36 best tools for data visualization", CB Creative Blog, March 12th 2014 (www.creativebloq.com).

6   Tufte, E., "Maps moving in time: a standard of excellence for data displays" (www.edwardtufte.com).

7   Baker, H., "Looking Outward with Big Data: A Q&A with Tom Davenport", *strategy+business*, March 31st 2014 (www.strategy-business.com).

8   AA1000 Stakeholder Engagement Standard, AccountAbility 2011.

9   *The Stakeholder Engagement Manual, Volume 2: The Practitioner's Handbook on Stakeholder Engagement* (available at www.accountability.org.uk).

10 National Audit Office, *Choosing the Right FABRIC: A Framework for Performance Information*, March 2001 (available at www.nao.gov.uk).

11 Ekstrand, L., et al., *Performance Measurement and Program Evaluation*, NOAA, 2012.

Sources
Diski, J., *Rainforest*, Penguin Books, 1987.
Enterprise Rent-A-Car, "Culture of Customer Service", 2014
    (http://aboutus.enterprise.com).
National Audit Office, Comptroller and Auditor General, *Universal Credit: Early
    Progress*, September 5th 2013.

6   Stakeholder engagement

Notes
1   Wylie, I., "Talk to Our Customers? Are You Crazy?", *Fast Company*, July 2006.
2   Allen, K., "The art of engagement", Deutsche Post DHL, February 5th 2014
    (www.dpdhl.com)
3   Vodafone, "Why 19 million people put their trust in us" (www.vodafone.co.uk).
4   Edelman Trust Barometer, *Trust in Financial Services*, 2014 (www.edelman.com).
5   Murray, A., "Co-operative Bank confirms £1.3bn loss", *Co-operative News*, April 11th
    2014 (www.thenews.coop).
6   VanderMolen, A., "Three reasons I care about trust", Edelman Global Practices,
    January 20th 2013 (www.edelman.com).
7   Shockley-Zalabak, P.S. and Morreale, S.P., "Building high-trust organizations", *Leader
    to Leader*, 60, spring 2011, pp. 39–45.
8   Ibid.
9   Adapted from Bellman, G., *The Consultants Calling*, Jossey-Bass, 2002.
10   Selinger. E., "The 'Mood Graph': how our emotions are taking over the web", *Wired*,
    August 13th 2013 (www.wired.com).
11   Markey, R. and Reichheld, F., "The economics of loyalty", Bain & Company, March
    23rd 2012 (www.bain.com).
12   Nielsen, *Global Trust in Advertising and Brand Messages*, September 2013
    (http://se.nielsen.com).
13   Sheldrake, P., "Employee advocacy – rather uncomfortable and somewhat forced",
    April 8th 2014 (www.philipsheldrake.com).
14   Urban, G.L., "The Emerging Era of Customer Advocacy", *MIT Sloan Management
    Review*, Winter 2004.
15   Friedman, B., "How to Find Key Online Influencers", *Social Media Today*, May 12th
    2013 (www.socialmediatoday.com)
16   Rushton, K., "Microsoft's new CEO Satya Nadella impresses with debut results", *Daily
    Telegraph*, April 24th 2014 (www.telegraph.co.uk).

Sources
Co-operative Group, "Myners governance report published", May 7th 2014 (www.co-
    operative.coop).

Mayer, R.C., Davis, J.H. and Schoorman, F.D., "An integrative model of organizational trust", *Academy of Management Review*, 20, 1995, pp. 709–34.

J. Sainsbury, "Sainsbury's: 20x20 Factsheet", November 20th 2013 (www.jsainsbury.co.uk).

Tesseras, L. "Customer satisfaction levels plummet in financial, retail and telecommunications sectors", *Marketing Week*, May 21st 2014 (www.marketingweek.co.uk).

7 Leadership and organisation design

Notes

1 Patterson, S., "Successful lean management requires leaders to be 'all in' every day", Virginia Mason Blog, February 12th 2014 (http://virginiamasonblog.org).

2 Adapted from Morgan, G., *Images of Organization*, Sage Publications, 2006.

3 Kahn, M., "Unions Take Wal-Mart to Court of Public Opinion", Reuters, August 30th 2005.

4 Papic, M. and Noonan, S., "Social Media as a Tool for Protest", Stratfor Global Intelligence, February 3rd 2011 (www.stratfor.com).

5 Stanford, N., *Fitting in and Getting On: the performance of senior executives joining new companies*, unpublished PhD thesis, 2002.

6 Schein, E.H., "Organizational culture and leadership", in Shafritz, J. and Ott, J.S. (eds), *Classics of Organization Theory*, Harcourt College Publishers, 2001.

7 "How Al Dunlap Self Destructed", *Business Week*, June 25th 1998.

8 Allen, F., "Steve Jobs Broke Every Leadership Rule. Don't Try It Yourself", *Forbes*, August 27th 2011 (www.forbes.com).

9 Katzenbach, J., "The Steve Jobs Way", *strategy+business*, May 29th 2012 (www.strategy-business.com).

10 Carroll, M., *Awake at Work*, Shambhala, 2006.

11 Dickey, B., "NASA'S Next Step", *Government Executive*, April 15th 2004.

12 Morgan, op. cit.

13 Kotter, J., "Leading Change: Why Transformation Efforts Fail", *Harvard Business Review*, March–April 1995.

14 CNN, "Independence Day Lift-off for Discovery", July 4th 2006 (www.cnn.com).

15 Malik, T., "Landing Day: Space Shuttle Discovery Returns to Earth", July 17th 2006 (www.space.com).

16 Dreamflight, "High Profile Supporters", May 11th 2014 (www.dreamflight.org).

17 Meyerson, D.E., *Tempered Radicals*, Harvard Business School Press, 2001.

18 Meyerson, D.E., "Radical Change the Quiet Way", *Harvard Business Review*, October 2001.

19 Weiss, A., *"Good enough" isn't enough: Nine Challenges for Companies that Choose to be Great*, Amacom, 1999.

20 Transparency International, "Our work on whistleblowing", 2014

(www.transparency.org).

21 Heller, J., *Something Happened*, Vintage, 1995.
22 Kruger, P. and Mieszkowski, K., "Stop the Fight", *Fast Company*, August 1998.
23 See www.belbin.com for an explanation of Belbin's Team Roles (one of several methods of assessing the profile of a team).
24 Adapted from Spangler, B., "Best Alternative to a Negotiated Agreement (BATNA)", in Burgess, G. and Burgess, H. (eds), *Beyond Intractability*, Conflict Research Consortium, University of Colorado, posted June 2003 (www.beyondintractability.org).
25 Fisher, R. and Ury, W.L., *Getting to Yes: Negotiating Agreement Without Giving In*, 2nd edn, Penguin Books, 1991.
26 Boyce, N., "Wayne Hale's Insider Guide to NASA", June 30th 2006 (www.npr.org).

Sources

Berfield, S., "Walmart vs. Union-Backed OUR Walmart", *Businessweek*, December 13th 2012 (www.businessweek.com)

Blanchard, K. and Zigami, P., *Leadership and the One Minute Manager: Increasing Effectiveness Through Situational Leadership*, William Morrow, 1999.

Chow, D., "After 13 years international space station has all its NASA rooms", March 9th 2011 (www.space.com).

Harvey, J.B., *The Abilene Paradox*, Jossey-Bass, 1996.

Miller, C., "Where Some Earn Enmity, Jobs Won Affection", *New York Times*, August 25th 2011 (www.nytimes.com).

O'Connor, C., "Walmart will win Black Friday despite worker strikes, labor violations and food bank woes", *Forbes*, November 19th 2013 (www.forbes.com).

Public Concern at Work, "Whistleblowing: the inside story", May 2013 (www.pcaw.org.uk).

8   Culture and group processes

Notes

1   This is a widely quoted advertisement that makes good reading but to date no one has found its original publication. The closest to it appears to be a letter from Ernest Shackleton printed in *The Times* on December 29th 1913, p. 6.
2   Shackleton, E., *South*, The Lyons Press, 1998.
3   Watkins, P., "Lost in the Sea of Ice", *The Times*, August 26th 2006, in a review of Tyler-Lewis, K., *The Lost Men*, Bloomsbury, 2006.
4   Shackleton, op. cit.
5   Schein, E.H., *The Corporate Culture Survival Guide*, Jossey-Bass, 1999.
6   MBC4, "Supernanny: Learn More About Children Raising!", May 16th 2010 (www.mbc.net).
7   Stilgherrian, "Lagging Android Devices Vulnerable to Heartbleed", ZDNet, April 11th 2014 (www.zdnet.com)

8   Rogers, M., "Ready, Steady, Go", March 3rd 2014 (http://markrogersbcc.wordpress.com)

9   Woodward, B., "State of Denial (excerpt)", *Newsweek*, October 9th 2006.

10   Francis, R., *Report of the Mid Staffordshire NHS Foundation Trust Public Inquiry: Volume 3 Present and Future*, The Stationery Office, London, 2013.

11   Royal College of Midwives, "RCM comments on Francis Report", February 6th 2013 (www.rcm.org.uk).

12   Smith, J., "Hospital culture has changed due to Francis", *Health Service Journal*, February 6th 2014 (www.hsj.co.uk).

13   Egan, G., *Working the Shadow Side*, Jossey-Bass, 1994, p. 4.

14   Bevan, J., *The Rise and Fall of Marks & Spencer*, Profile Books, 2007.

15   Retrieved from www.cbc.ca/bigpicture/human.html

16   Stewart, T.A., "Did You Ever Have to Make Up Your Mind?", *Harvard Business Review*, January 2006.

17   Nakashima, E. and Noguchi, Y., "HP CEO Allowed 'Sting' of Reporter", *Washington Post*, September 21st 2006.

18   Retrieved from http://online.wsj.com/public/resources/documents/09282006_Testimony_Hurd.pdf.

19   Vroom, V.H. and Jago, A.G., *The New Leadership: Managing Participation in Organisations*, Prentice Hall, 1988; Vroom, V.H. and Yetton, P.W., *Leadership and Decision Making*, University of Pittsburgh Press, 1973.

20   Klein, G., *Sources of Power: How People Make Decisions*, MIT Press, 1999.

21   "An interview with John Mackey, founder of Whole Foods", *Grist*, December 16 2004 (www.grist.org).

22   Fox, J., "The HBR Interview: 'What Is It That Only I Can Do?'", *Harvard Business Review*, January 2011 (www.hbr.org).

23   Drucker, P.F., *The Effective Executive: The Definitive Guide to Getting the Right Things Done*, HarperCollins, 2002.

24   Peter, L.J., *The Peter Principle*, William Morrow, first published in 1969.

25   Salter, C., "Updating the Agenda: MicroStrategy Inc.", *Fast Company*, May 2001.

26   Heffernan, M., "Dare to disagree", TED talk, June 2013 (www.ted.com).

27   Aritzeta, A., Ayestaran, S. and Swailes, S., "Team Role Preference and Conflict Management Styles", *International Journal of Conflict Management*, Vol. 16, Issue 2, 2005.

28   Deutsch, C.G., "Building the global bank: An interview with Jamie Dimon", *McKinsey Quarterly*, Issue 4, 2006.

29   Watkins, op. cit.

Sources

Belbin team-role tool (www.belbin.com)

Brechin, A., Brown, H. and Eby, M. (eds), *Critical Practice in Health and Social Care*, The Open University, 2000.

International Masters Programme in Practising Management (IMPM) (www.impm.org)

Slee, D., "DIGITAL LEADERS: Vital lessons from a human leader and a lone dancing nut", March 9th 2014 (http://danslee.wordpress.com).

Thomas-Kilmann Conflict Mode Instrument (www.kilmann.com).

Weiss, J. and Hughes, J., "Want Collaboration? Accept – and Actively Manage – Conflict", *Harvard Business Review*, March 2005.

9   Continuous design

Notes

1   Drucker, P., *Management Challenges for the 21st Century*, Collins, 1999.
2   Lepi, K., "What happens in an internet minute?", Edudemic, February 27th 2014 (www.edudemic.com).
3   "Room for all, for now", *The Economist*, April 26th 2014.
4   Kamenetz, A., "The Network Unbound", *Fast Company*, June 2006.
5   Flackery comes from "flack", an informal word for someone who allegedly invents news, or gives out news that people want to hear. In this instance, flackery is a synonym for hype.
6   "When giants slow down", *The Economist*, July 27th 2013.
7   Summarised from Claessens, S. and Yurtoglu, B., *Corporate Governance and Development – An Update*, International Finance Corporation, 2012.
8   www.nacdonline.org
9   *Do CEOs Make the Best Board Members?*, Stanford Graduate School of Business, August 25th 2011 (www.stanford.edu).
10 Whitehead, P., "Non-executive director: a task for which no one is qualified", *Financial Times*, April 10th 2013.
11 Hsieh, T., "Work Life Happiness? You Bet", Innovation Factory, 2014 (http://businessinnovationfactory.com).
12 Conway, N. and Briner, R.B., *Understanding Psychological Contracts at Work*, Oxford University Press, 2005.
13 Chartered Institute of Personnel and Development, *Flexible Working*, June 2014 (www.cipd.co.uk).
14 Eberstadt, N., "Looking towards 2030: a new world coming into focus", *Economic Affairs*, Vol. 32, No. 1, February 2012.
15 CEDEFOP, *Working and Ageing*, 2013 (www.cedefop.europa.eu).
16 Employers Forum on Age, *McDonald's Research*, November 1st 2009 (www.efa.org.uk).
17 C. Joseph Pusateri, *A History of American Business*, 2nd edn, Harlan Davidson, 1988.
18 Mathews, D., "Does Big Mean Bad? The Economic Power of Corporations", *The Freeman*, Vol. 46, No. 2, 1996.
19 Gordon, A., "Why America's Most Powerful Companies Are Dying Off", *Early Investing*, February 14th 2014 (http://earlyinvesting.com).
20 Harvard Business School, "Market Makers Bid for Success", HBS Working

Knowledge, May 30th 2000 (http://hbswk.hbs.edu).

21 IAP2 (www.iap2.org).

22 Millard, N. and Witchalls, C., "A Q&A with Nicola Millard, a BT futurologist", BT Let's Talk, September 6th 2011 (http://letstalk.globalservices.bt.com).

23 *"List of think-tanks in the UK", The Guardian,* September 30th 2013 (www.theguardian.com)

24 Schoultz, M., "Lego Innovation: An Example of Crowdsourcing Design", Digitalspark Marketing, February 2014 (www.digitalsparkmarketing.com).

25 Craig Reynolds, www.red3d.com/cwr/boids/

26 Engardio, P. and Arndt, M., "How Cummins Does It", *BusinessWeek,* August 22nd 2005 (www.businessweek.com).

Sources

Alexander, R.M., *Bones: The Unity of Form and Function,* Macmillan, 1994.

American Association of Retired Persons (AARP), *Perkins Coie LLP,* June 2013 (www.aarp.org).

Balduino, R., *Introduction to Open UP,* 2008 (www.eclipse.org).

Brynjolfsson, E. and McAfee, A., *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies,* Brilliance Audio, MP3 Una edition, 2014.

Chartered Institute of Personnel and Development, *The Psychological Contract,* July 2013 (www.cipd.co.uk).

Clif Bar, *All Aspirations, Clif Bar & Company Annual Report,* 2013 (http://issuu.com).

Dignan, L., "IBM steps up HR push, adds consulting, new Kenexa services", ZDNet, August 4th 2014 (www.zdnet.com).

Euromonitor International, "Amazon Hopes to Spark Lagging Grocery Segment of Internet Retailing", June 25th 2014 (http://blog.euromonitor.com).

Holt, J., "GE Is Flexing Its "Ecomagination" Muscles To The Tune Of $10 Billion", Top Stock Millionaire, April 2nd 2014 (http://topstockmillionaire.com).

IBM, "Generating higher value at IBM", March 2013 (www.ibm.com).

International Finance Corporation, *Corporate Governance Tools,* 2014 (www.ifc.org).

Keeler, D., "Nigeria, Argentina and Vietnam Prove Top Picks for Multinationals", *Wall Street Journal,* June 6th 2014 (http://blogs.wsj.com).

UK Commission for Employment and Skills, *The Future of Work: Jobs and Skills in 2030,* 2014.

Wagle, V., "Four million ways to say 'thank you'", Airbnb, March 20th 2014 (http://blog.airbnb.com).

World Bank, *Country and Lending Groups,* 2014 (http://data.worldbank.org).

Organisation design models

McKinsey's 7-S Model
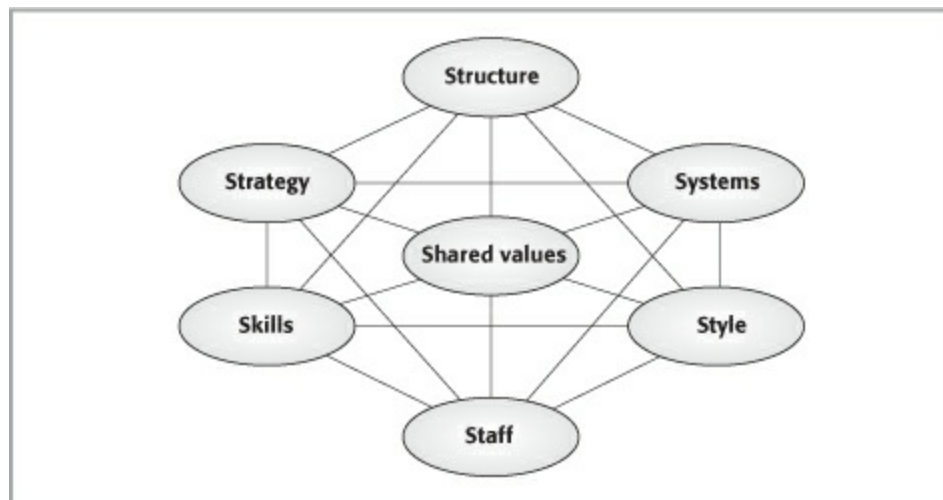
Galbraith's Star Model
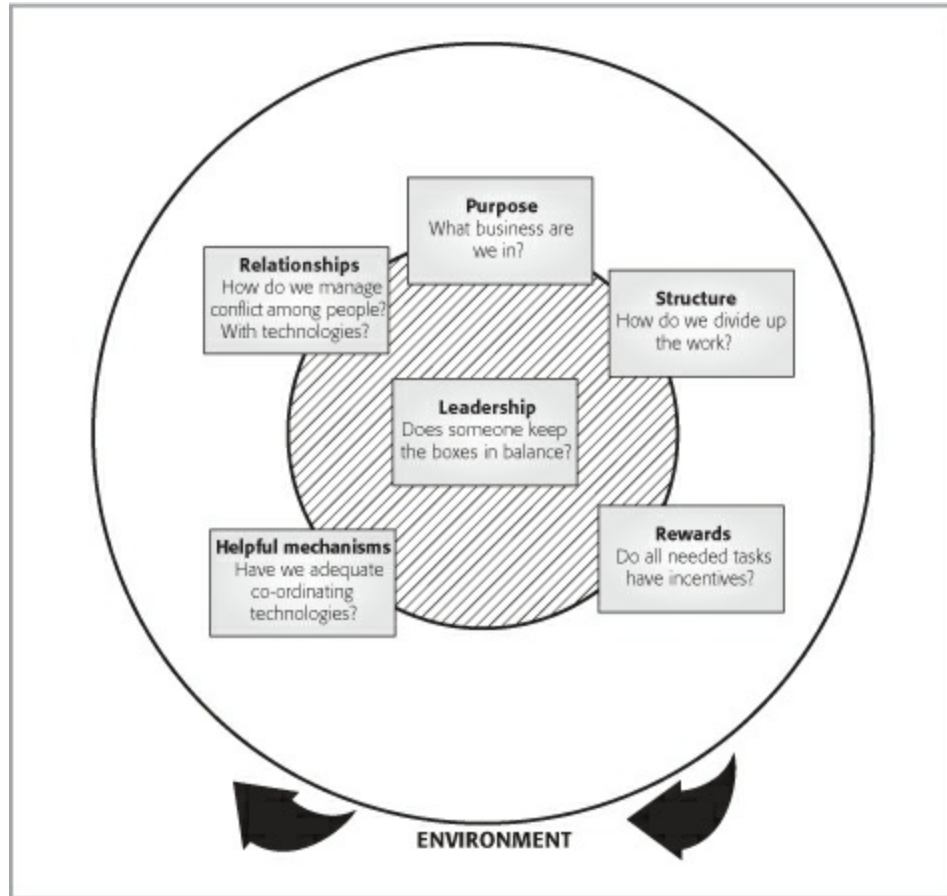
Weisbord's Six Box Model

Nadler and Tushman's Congruence Model
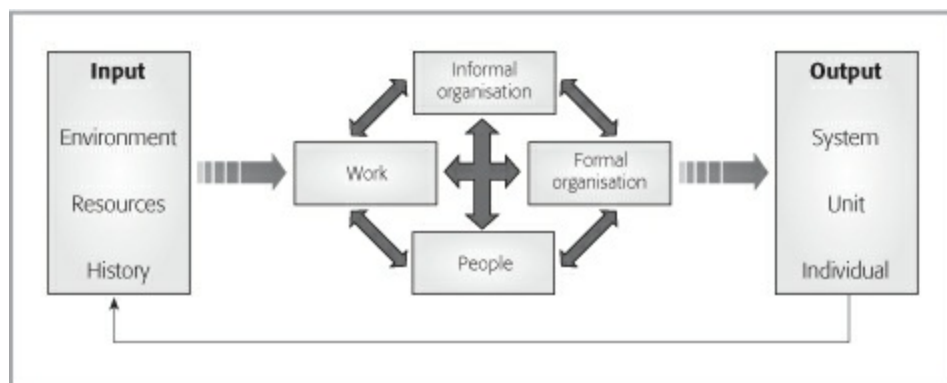
Burke-Litwin Causal Model
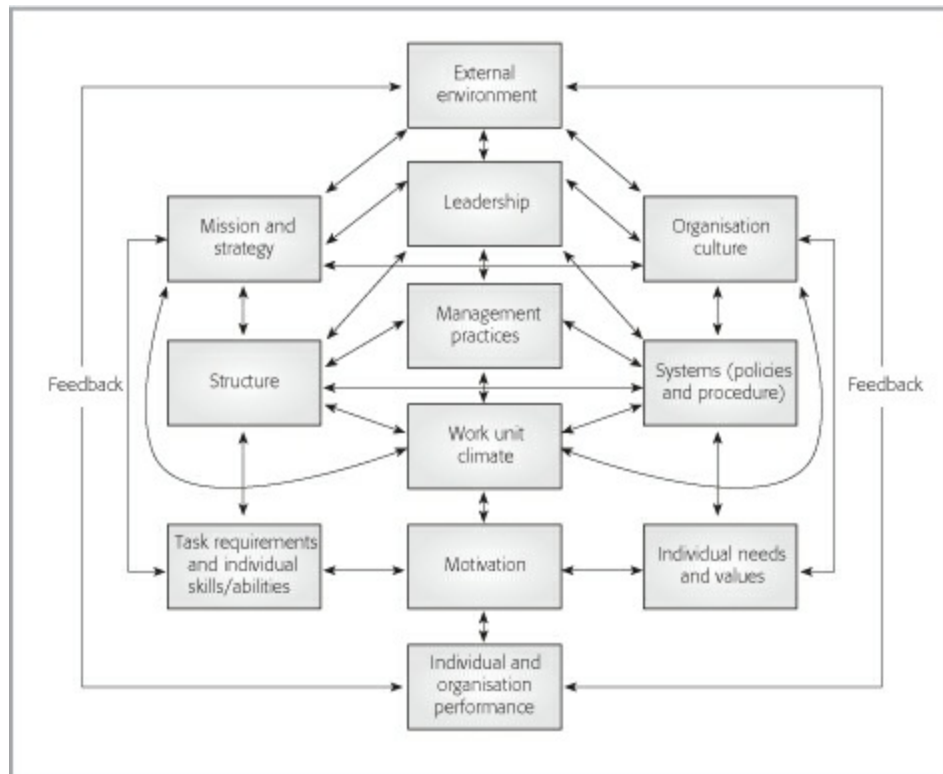
Source: W. Warner Burke and George H. Litwin, "A causal model of organizational performance and change", *Journal of Management*, September 1992

Leavitt's Diamond
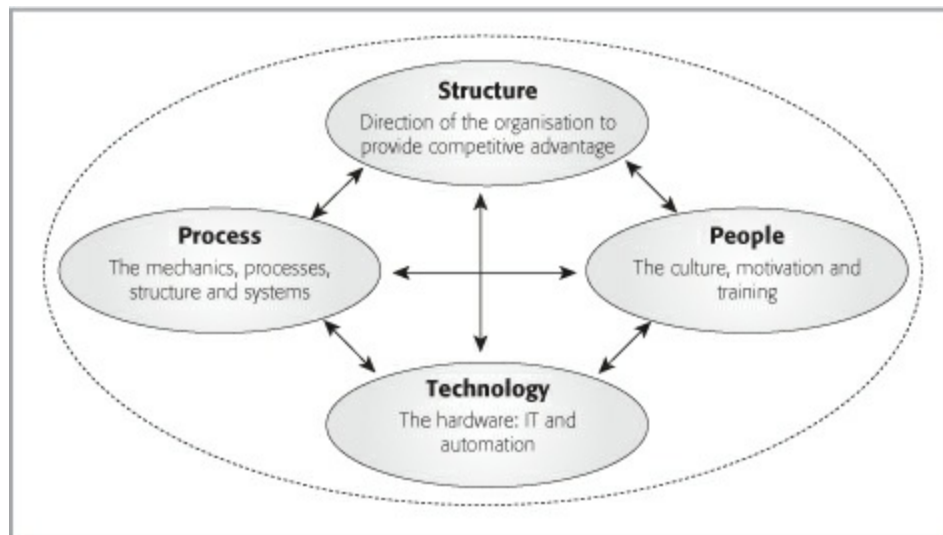
Source: Leavitt, H.J., "Applying organizational change in industry: Structural, technological and humanistic approaches", in March, J.G. (ed.), *Handbook of Organizations*, Rand McNally, 1965

Fractal web
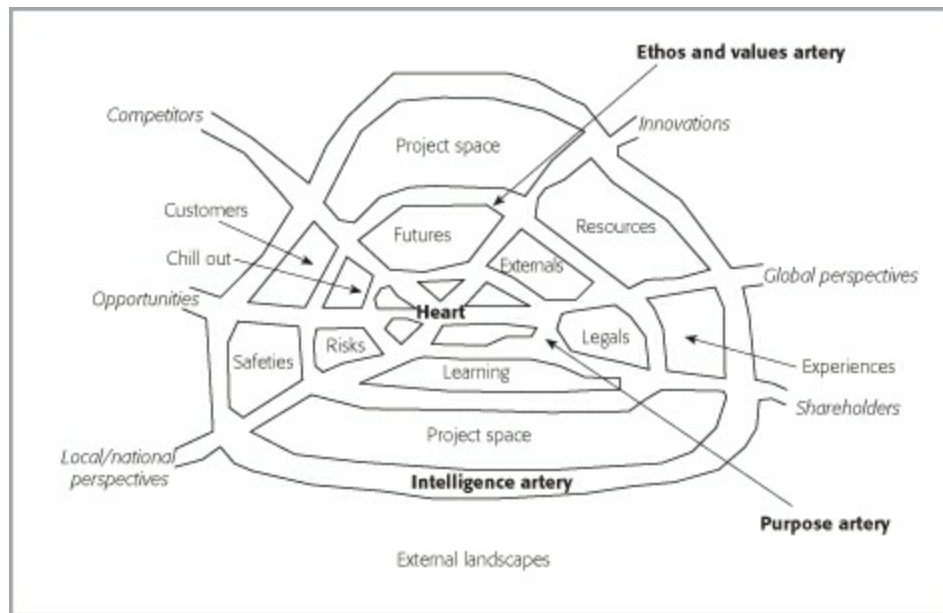
Source: McMillan, E., "Considering Organisation Structure and Design from a Complexity Paradigm Perspective", in Frizzelle, G. and Richards, H. (eds), *Tackling Industrial Complexity: The Ideas That Make a Difference*, Institute for Manufacturing, University of Cambridge, 2002

Ralph Kilmann's Five Track Model
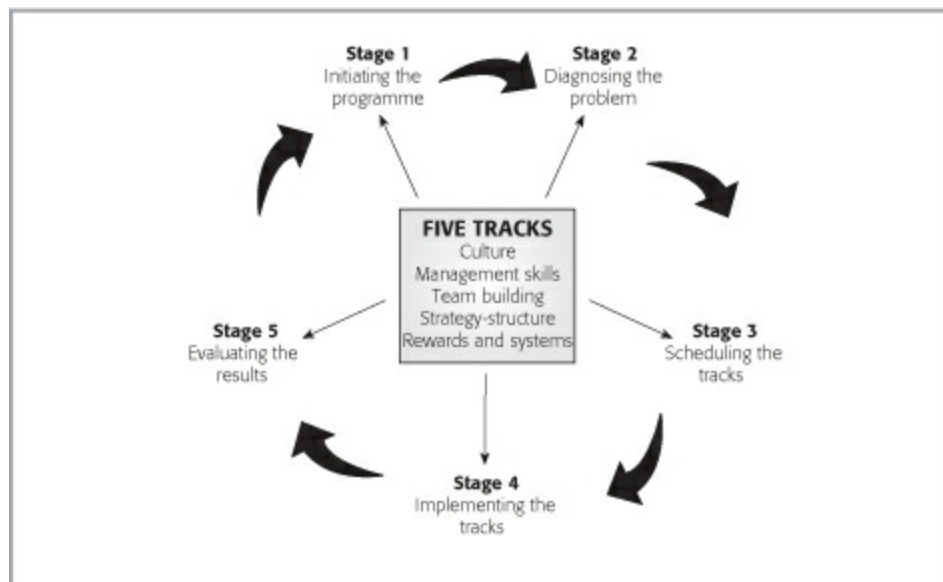
Source: Kilmann, R.H., Quantum Organizations: *A New Paradigm for Achieving Organizational Success and Personal Meaning*, Davies-Black Publishing, 2001

Ken Wilber's AQAL Model

Nadler's Updated Congruence Model

Holonic Enterprise Model

Glossary

Abilene Paradox   A story of mismanaged agreement. A course of action is suggested by one member of a group and no one raises any objection to it. The group takes this course. Subsequently, it transpires that several people had not agreed with the original proposal but went along with it for various reasons. (See Harvey, J.B., *The Abilene Paradox and other Meditations on Management*, Jossey-Bass, 1996.)

Action management   A systematic method of managing actions planned to achieve business goals. Various action-management software programs are available to help track, monitor, control and respond to actions.

Action planning   Decide business goals and then determine the actions to take to achieve these. From this build an action plan, a sequenced series of steps that include task assignments, milestones, timelines, resource allocations and performance measurement.

Analysis tools   Analysis is the systematic approach to problem solving. Complex organisational problems are made simpler when they are separated into smaller, more understandable elements. The selection of the right analysis tool depends on the nature of the problem. An example of an analysis tool is a SWOT (strengths, weaknesses, opportunities, threats) analysis.

Appreciative inquiry   An analysis and assessment approach that seeks to find what works in an organisation and to build designs from that. The results of this positively oriented process are statements that describe the future state of the organisation based on the high points and good aspects

	of where it has been.
Big data	High-volume, high-velocity, high-variety information assets that demand cost-effective, innovative forms of information processing for enhanced insight and decision-making. (See www.gartner.com/it-glossary/big-data/)
Blue-sky thinking	Similar to brainstorming in that it asks people to create a range of options and possibilities in an ideal world where there are no constraints.
Business process	An end-to-end series of activities starting with inputs to a product or service and ending with the output. There are three types of business process: management, operational, support.
Capability	Organisational capability is the collective skills, abilities and expertise of an organisation vested in its employees. Capability is maintained and developed through various human resources practices including job design, training, rewards and recognition, and career development. Organisational capability is an intangible asset that, managed well, can be a valuable competitive differentiator.
Change readiness	Before launching any type of project involving a change to working conditions, it is helpful to assess factors such as the perception of the need for change, how much (or little) support the change is likely to get from stakeholders, what the driving and blocking forces might be to achieving project success, and leadership ability to manage the change.
Competence	An individual's ability to carry out tasks and activities to the standards required in employment using an appropriate mix of knowledge, skills and attitudes. Many organisations have competence frameworks that define levels of ability against which employees' performance is measured.
Complexity theory	In the case of organisations and management, complexity theory is concerned with the conditions that affect

predictability and self-organising behaviour. Oversimplifying, the theory suggests that a complex system is inherently unstable and therefore unpredictable (mathematics demonstrates that the unpredictability is not random), but that direction emerges and self-organisation happens around this. (See Stacey, R.D., *Complexity and Management: Fad or Organizational Challenge*, Routledge, 2000.)

Crowdsourcing	The processes for sourcing a task or challenge to a broad, distributed set of contributors using the internet and social collaboration techniques. (See www.gartner.com/it-glossary/?s=crowdsourcing)
Culture	The values, traditions, customs, stories, habits and attitudes that a group of people share that define for them their general behaviour and way of working in an organisation. A common shorthand for the definition is "the way we do things round here".
Dashboard	A method of presenting easy-to-read and easy-to-assimilate information on the measures being used to track and determine project status. It is called a dashboard because the visual display of the information resembles that of a car dashboard.
Derailers	The character traits that contribute to leadership failure by undermining their effective characteristics. Dysfunctional attributes that take leaders off track include arrogance, volatility, micromanagement and an abrasive interpersonal style. (See www.hoganassessments.com for tools to assess derailers.)
Emotional intelligence	In 1995 Daniel Goleman wrote a book, *Emotional Intelligence: Why It Can Matter More Than IQ* (Bantam, reprinted 1997), describing five dimensions of emotional intelligence: self-monitoring, self-regulation, self-motivation, empathy and social skills. He suggested that people who are clearly more capable in demonstrating these attributes are more successful than those who have

lower levels of emotional intelligence (EI). The book sparked a commercial and research industry in the concepts of EI. (See the Consortium for Research on Emotional Intelligence in Organizations at www.eiconsortium.org)

Engagement approach
The communication and other methods used to involve stakeholders in an organisational change. The aim is to develop and maintain support for the change from those who will be involved in it and affected by it.

Facilitated session
Events or workshops orchestrated by a facilitator. Facilitators do not need to have knowledge of the content of the workshop as their skill is using their knowledge of group processes to determine approaches and techniques that help a group achieve the objectives of the session. (See the International Association of Facilitators at www.iaf-world.org)

Focus group
Small groups of stakeholders who participate in facilitated discussions on questions related to organisation change. The purpose of the discussion is to collect views and opinions on the proposed or enacted changes in order to inform future planning.

Future search
A conference-style approach involving large numbers of internal and external stakeholders jointly working on a design with facilitator support. Briefly, some initial questions are posed and the "delegates" use a combination of structured activities to agree answers/solutions. This method has the benefit of generating feelings of ownership among stakeholders thus getting speedily to the implementation stage.

Geeks and techies
People with a passionate interest in the detailed technical attributes of something. They focus on this to the exclusion of many other aspects of life.

Governance
The way an organisation design programme is directed, controlled, organised, managed and administered through various policies and procedures.

Hierarchy theory
A theory concerned with levels of organisation. It uses a

small number of principles to monitor complex structures and behaviours of multiple level systems. The theory's foundation paper, "The Architecture of Complexity: Hierarchic Systems", was written by Herbert Simon (*Proceedings of the American Philosophical Society*, Vol. 106, December 1962).

Holonic systems   From the Greek *holos* meaning whole, a holonic system is composed of autonomous entities (called holons) that can deliberately reduce their autonomy, when the need arises, to collectively achieve a goal. It is a complex, co-operative system, able to evolve and self-organise over time to optimise survivability, adaptability, flexibility, efficiency and effectiveness. (See Koestler, A., *The Ghost in the Machine*, Penguin, reprinted 1990.)

Jumpstart event   An approach that quickly moves participants through the early phases of organisation design work. Jumpstart events provide a spark that gets people going in the same way that jump leads get a car with a flat battery going.

Mapping techniques   In organisation design work, mapping means assessing the attributes and relationships between organisational elements to get a sense of the organisational landscape. The aim is to find out what the focus of the various elements is, how they are ordered in relation to one another, what the areas of similarity and difference are, and how they are oriented to each other.

Measurement   A formalised activity (assessing, monitoring, gauging, ascertaining, surveying, and so on) aimed at producing structured data that are then interpreted and applied in the process of making judgments, decisions and choices.

Noise   In organisation design work, noise is the information generated by all the day-to-day organisational communication channels, formal and informal, including e-mail, gossip, websites and news briefs. Organisational designers have two challenges related to noise: sifting out what is relevant, such as useful feedback on progress, from background noise; and getting their messages heard

clearly over other messages.

Open source   Forums, usually web-based, for sharing problems and challenges and working together on solutions. Commonly associated with development of software, for example Linux, the term and concepts are now being applied to a range of other arenas where collaborative problem-solving or product development benefits from widespread outsider (often those with expertise tangential to the problem's field) thinking. See www.innocentive.com for examples of open source challenges in science.

Organisation   A relatively durable, reliable and accountable social structure "created by individuals to support the collaborative pursuit of specified goals" (Scott, R.W., *Organizations: Rational, Natural, and Open Systems*, Prentice Hall, 2003). Any organisation comprises interacting components, each having an impact on one another.

Organisation design   The sequence of work that results in an alignment of vision/mission, values/operating principles, strategies, objectives, systems, structure, people, processes, culture and performance measures. The outcome of intentional activities that align all the components of an organisation in a way that keeps it adaptable in its operating context.

Predictive modelling   A process of creating a model and with this analysing past performance data to predict probable future performance.

Principal/agent problems   The difficulties that arise when one person (the principal) delegates work to someone else (the agent) without having the means to ensure that the agent will act in the principal's interest and not in self-interest.

Processes   The end-to-end workflow from input to output of a product or service. For example, a recruitment process typically includes the following steps: develop job specification, determine selection criteria, advertise vacancy, provide information to candidates, shortlist

applicants, interview applicants, make offer, negotiate contract, sign contract.

Programme management	The co-ordinated management of a portfolio of projects to achieve a set of business objectives which will be realised more effectively with a consolidated approach. Managing a programme commonly involves using a set of tools and methodologies to take the programme in a systematic way from inception to closure (see Chapter 4).
Project management	The application of specific tools and techniques to initiate, plan, execute, control and close a time-related piece of work that has stated objectives.
Quantum theory	Formulated in a well-defined mathematical language, quantum theory makes predictions for the probabilities of various possible outcomes, but not for which outcome will occur in any given case. Interpretation of the calculations, in words and images, often leads to statements that seem to defy common sense. Because quantum events occur on an extremely small scale, many aspects of quantum behaviour seem strange and even paradoxical. (Adapted from www2.slac.stanford.edu/vvc/theory/quantum.html.)
Reorganise	Shuffle existing players into a new formation without changing fundamentals. "We trained hard, but it seemed that every time we were to form up in teams, we would be reorganised. We tend to meet any new situation by reorganising – and a wonderful method it can be for creating the illusion of progress … while producing confusion, inefficiency, and demoralisation." (Attributed to Gaius Petronius Arbiter, Roman governor of Bithynia, AD60.)
Restructure	A step up from reorganising involving deeper changes, for example in response to a merger where, to accommodate the two parties, aspects of job design, work process, and so on, have to change. Often restructures, like reorganisations, fail to take account of

	the multiple interdependencies that need to form part of the restructure. This may result in employee cynicism of the type expressed well by Scott Adams, the originator of Dilbert cartoons: "Let's form proactive synergy restructuring teams."
Risk analysis	Risks are the various factors that could influence the achievement of business objectives – the upside opportunities (often forgotten) and the downside hazards. In organisation design work, it is important to identify, assess and determine appropriate ways of responding to these, and use a risk-control framework to manage the risks during the project's life cycle.
Sacred cow	In organisational terms, an assumption, an idea or a practice that is fiercely protected, often with no apparent reason, and thus becomes a barrier to change. (See Kriegel, R. and Brandt, D., *Sacred Cows Make the Best Burgers: Developing Change Ready People and Organizations*, Warner Books, reprinted 1997.)
Self-organising network	Associated with various scientific fields including physics, artificial intelligence and chemistry, but now used more loosely to describe the natural (ie, unmanaged) emergence of connected people into a recognised and coherent community, usually around a project, or topic of interest. (See Goldstein, J., "Emergence as a Construct: History and Issues", *Emergence: Complexity and Organization*, Vol. 1, 1999, pages 49–72.)
Silo	Organisational silos are divisions and departments that work independently of each other, resisting co-operation and collaboration with other functions in the organisation. Lack of information sharing between them leads to duplication, overlap and slowdown in getting things done. More dangerously it can also lead to mistakes and failure to act when the occasion demands.
Silo mentality	A compartmentalised view of business operations, often encouraged by hierarchical structures and reinforced by

	reward and recognition systems. People with a silo mentality are reluctant to share information, make connections between their work and the work of other departments, or see where collaboration could bring mutual benefit.
Six Sigma	A method of improving the quality, efficiency and effectiveness of business processes through rigorous and methodical statistical and data analysis that aims to achieve ± six sigma (standard deviations) or 3.4 defects per million items.
Social business	Adapting the way in which an organisation delivers its mission and pursues its vision by designing the organisation around influence flows – thus connecting its people, partners, customers and other stakeholders, and the data, information and knowledge in and around it more openly, productively and profitably – using social media, big data and related information technologies. (See www.attenzi.com)
Stakeholder	A person with a vested interest in something. In organisational design work, stakeholders are people who are affected, directly or indirectly, by the scope of a new design and/or who can influence the success or failure of the design.
Structure	The arrangement of people in an organisation that appear, in some form of hierarchy, on an organisation chart (see Chapter 3).
System	The infrastructure to carry the processes. So, for example, a human resources IT system will track the flow of a recruitment process. In most cases, systems are technology-based, but paper-based systems are still used in some organisations.
Transactional design	A design developed to achieve "better sameness" that might be needed to carry out the mission and strategy but is not in a response to changes in them.
Transformational design	A design developed in response to environmental forces either external or internal to the organisation that affect

	the mission, strategy and culture (such as a major, high-level and potentially life-threatening force).
Triple bottom line	As well as creating economic (financial) value, organisations are increasingly seeking to create social and environmental value (or a least to do no harm). These three elements – economic, social and environmental – comprise the triple bottom line for reporting organisational performance and results.
Virtual organisation	An organisation that encompasses ("organises") a workgroup or community that may be within an organisation, may span multiple organisations, or may be outside the boundaries of any formal organisation. Essential features of a virtual structure are identification with shared concerns or issues and temporal and geographic separation of members of the community. There are other features that may vary across various virtual organisations, such as absence of formal controls, rewards and incentives, and presence of relationships based on goodwill and reciprocity. (Definition adapted from www.brint.com/wwwboard/messages/9894.html)
Vision/visioning	Creating a compelling statement of what the organisation aspires to be or do is one of the first steps in designing a new state. Vision is important because it is the most fundamental impetus in inspiring people to do their best. A well-constructed vision also acts as a guide to decision-making, aligning the organisation's parts so that they work towards a desirable goal.
Walk the talk	This phrase has a similar intention to the injunction "practice what you preach". Leaders of organisation design programmes are in the spotlight, and if they are serious about getting support for their programmes they must be seen to be consistently acting as role models and doing what they are encouraging other people to do.

Index

Page numbers in *italic* denote figures; those in **bold** denote tables.

executive blogging 52, 227–8

PublicAffairs is a publishing house founded in 1997. It is a tribute to the standards, values, and flair of three persons who have served as mentors to countless reporters, writers, editors, and book people of all kinds, including me.

I. F. STONE, proprietor of *I. F. Stone's Weekly*, combined a commitment to the First Amendment with entrepreneurial zeal and reporting skill and became one of the great independent journalists in American history. At the age of eighty, Izzy published *The Trial of Socrates*, which was a national bestseller. He wrote the book after he taught himself ancient Greek.

BENJAMIN C. BRADLEE was for nearly thirty years the charismatic editorial leader of *The Washington Post*. It was Ben who gave the *Post* the range and courage to pursue such historic issues as Watergate. He supported his reporters with a tenacity that made them fearless and it is no accident that so many became authors of influential, best-selling books.

ROBERT L. BERNSTEIN, the chief executive of Random House for more than a quarter century, guided one of the nation's premier publishing houses. Bob was personally responsible for many books of political dissent and argument that challenged tyranny around the globe. He is also the founder and longtime chair of Human Rights Watch, one of the most respected human rights organizations in the world.

•   •   •

For fifty years, the banner of Public Affairs Press was carried by its owner Morris B. Schnapper, who published Gandhi, Nasser, Toynbee, Truman, and about 1,500 other authors. In 1983, Schnapper was described by *The Washington Post* as "a redoubtable gadfly." His legacy will endure in the

books to come.

Peter Osnos, *Founder and Editor-at-Large*