SUSTAINABLE ENTREPRENEURSHIP PROJECT

Designing the Organizational Structure

SUSTAINABLE ENTREPRENEURSHIP PROJECT
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Preface

This Research Paper describes several activities that need to be carried out in order to design an effective organizational structure. The Research Paper begins by identifying the essential elements of an organizational structure and suggesting a useful taxonomy of the various units that are typically found within the organizational structure including departments, functions or divisions, businesses, countries, products or projects. The chapter lays out certain fundamental principles for designing an effective organizational structure and discusses the relationship between the structure and the environmental factors that influence the competitiveness of the organization and the strategies used to exploit opportunities and manage and reduce risks from the threats in the environment. In particular, the chapter explores the key issues that must be addressed for each organizational unit including the areas of responsibility and authority that should be allocated to the unit, the vertical reporting and lateral relationships between units and the performance criteria to be used for determining the accountabilities of each unit. The chapter concludes with an illustration of how the structuring process might be conducted including the creation, evaluation and selection of structural design concepts.

One of the chapters in this Research Paper focuses on integration strategies and covers two of the most important issues that must be confronted in designing an organizational structure: differentiation and integration. Differentiation involves identifying and defining the basic functional or activity-focused units of the organization—those groups of people and other resources that must be created in order to perform specific functions or activities on behalf of the organization. Integration refers to manner in which these organizational units interact with one another to coordinate their activities, and often share their resources, in order to generate the outputs that are necessary in order for the organization as a whole to achieve its goals and objectives. The challenge during the design process is achieving the appropriate balance between differentiation and integration. Each time a choice is made to differentiate by creating a separate organizational unit consideration must be given to when the activities of that unit must be integrated with those of other units and how integration will be effectively achieved. The chapter provides an overview of several commonly used integration strategies including direct contacts and development of interpersonal relationships, liaison roles, task forces, teams and integrating roles/departments. The chapter also includes guidelines for creating and implementing effective lateral processes.

Chapter 1
Basic Elements of Organizational Structure

§1:1 Introduction

The goal when creating an organizational structure is to establish a framework for allocating the human and other resources of the organization in the most efficient manner for carrying out the activities necessary for pursuit of the strategic goals and objectives of the organization. The building blocks of an organizational structure are "organizational units," which are teams or groups acting under the authority of a designated senior executive or manager that are vested with responsibility for specified tasks and activities necessary for the organization to execute its product-market strategies. Organizational units should be created for each task or activities that requires management attention and may be classified as departments, functions or divisions, businesses, countries, products, or projects.[1] The creation of organizational units is only the first step, however, and in order for the organizational designer to develop and implement an effective organizational structure he or she must also spells out the roles of every person in the organization, define how authority and responsibility should be delegated throughout the organization, and establish channels of communication and processes for transferring information within the organization. The proper organizational structure is a necessary, but not sufficient, condition to an effective organizational design solution and consideration will also need to be given to other factors such as people, values, incentives and culture, each of which must be taken into account when working on the various structural issues.[2]

§1:2 Definitions of key management units

In order to provide senior executives and other involved in the organizational design process with the requisite tools to create a proposed structure for the organization it is useful to develop standardized definitions for the key management units (i.e., groupings of human and other resources) that are normally found in any good organizational structure solution. The definition should specify the responsibilities, relationships and accountabilities for each type of unit. Obviously these definitions will be generic and serve merely as prototypes for the participants in the structuring process; however, they

[1] The framework of the suggested processes for designing an effective organizational structure presented in this chapter, including the taxonomy of organizational units, is derived from M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002). Additional resources on this subject include J.R. Galbraith, "The Value-Adding Corporation: Matching Structure with Strategy", in J.R. Galbraith, E.E. Lawler, III, and Associates. Organizing for the Future: The New Logic for Managing Complex Organizations (San Francisco: Jossey-Bass, 1993) and J.R. Galbraith, "The Business Unit of the Future", in J.R. Galbraith, E.E. Lawler, III, and Associates, Organizing for the Future: The New Logic for Managing Complex Organizations (San Francisco: Jossey-Bass, 1993).

[2] For further discussion of the various elements of organizational design, see "Organizational Design" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

are extremely valuable in creating a common language that can be referred to during the actual organizational design process. One of the most popular taxonomies of organizational units was developed by Goold and Campbell and includes the following[3]:

- Business units are product/market-focused and profit-responsible units, sometimes referred to as "divisions," with relatively high decision-making authority that report directly to the parent unit (e.g., CEO).
- Business functions, sometimes referred to as "departments," are responsible for performing specific operating functions (e.g., manufacturing or sales) within a business unit and report to the senior executive of that business unit.
- Sub-businesses are product/market-focused units that serve specific business segments within a broader business unit.
- Overlay units are product/market-focused units that serve segments that are defined along dimensions that cut across those associated with the regular business units.
- Core resource units are responsible for the development, maintenance and nurturing of scarce resources (e.g., research and development) that are considered essential to the competitive advantage of all the business units within the organization.
- Shared service units are responsible for providing services that are needed to support the activities of several other business units within the organization.
- Project units are temporary units formed to complete specific tasks or projects that cut across the regular activities of other permanent units.
- Parent units are at the upper level(s) of the organization (i.e., "headquarters") and are responsible both for carrying out obligatory corporate tasks and for influencing relations between other units and providing "value added" input to other units.

It is difficult to generalize about how the units and groups within any specific organization should be classified; however, it is typical for an organization to grow to the point where it has various business units that focus on customers or products and overlay units created to coordinate activities in particular geographic markets. In addition, staff departments focusing on human resources and information technology will usually be shared service units; however, it is also possible for those departments to become and remain core resource units depending on the activities and strategy of the organization

§1:3 Responsibilities, relationships and accountabilities of organizational units

Each of the organizational units should have its own unique set of responsibilities, relationships and main accountabilities. For example, business units and sub-businesses are required to focus on, and become responsible for, specific markets while the responsibilities of core resource and project units are obviously focused on building and maintaining valuable resources and executing projects respectively. Business units are held accountable to their bottom line and their ability to generate revenues and profits that meet or exceed expectations. As such, business units are relatively easier to monitor and evaluate. On the other hand, a core resource unit is evaluated on the way in which

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[3] M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002), 158-176 and 188-205.

resources are developed and utilized within the organization and this obviously requires different measurement tools than those used to assess business units. Finally, while the highly autonomous business units generally need not develop strong lateral relationships with other units unless there is a mutual advantage to both units, the success of a shared service unit is highly dependent on its ability to forge relationships with business and overlay units through communications and providing cost-effective services.

In order for the process of organizational structuring to be effective, the following questions must be addressed and carefully answered for each organizational unit[4]:

- What areas of responsibility and corresponding authority should be allocated to each organizational unit?
- What vertical reporting relationships should be created between organizational units to ensure effective control over delegated authority?
- What lateral relationships should be created between organizational units to facilitate coordination of activities among units that do not have a reporting relationship?
- What performance criteria will be used for determining the accountabilities of each organizational unit?

§1:4 --Responsibilities and authority

The organizational structure should include a clear specification of the broad areas of responsibility for each organizational unit[5] along with the scope of authority that the unit is to be given to discharge its responsibilities. For example, a market-focused business unit will typically be a profit center vested with responsibilities for both generation of revenues and management of costs in the specified markets. On the other hand, a business function will usually be a cost center, unless it also has external customers (i.e., entities that are unrelated to the organization that wish to purchase the services created by the activities of the business function), and thus will be primarily responsible for providing the services to other business units on a cost-effective and timely basis.

When specifying responsibilities and authority within the organizational structure it is not necessarily the best thing to try and include too much detail and each organizational unit should be given the latitude to determine the best way to fulfill its responsibilities and satisfy the applicable performance criteria. For example, a product-focused business unit should be given enough information to understand which classes of products and services it will be responsible for as well as which products or services which are not included in its mission. Beyond that, however, the unit should be given fairly broad discretion to build its own portfolio of specific products and services within the permitted classes taking into account the core competencies, resources and potential competitive advantages within the unit and the assessment of the senior executives of the unit

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[4] M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002), 149-155.

[5] Reference should be made to the taxonomy of organizational units described in the chapter below for further understanding of the various types of organizational units referred to in this discussion of the elements of organizational structure.

regarding competition and the best strategy for achieving the performance goals established for the unit.

§1:5 --Vertical reporting relationships

The organizational structure should identify all vertical reporting relationships between organizational units and the nature of the reporting relationship, which goes to the scope of control and authority that an organizational unit at a higher level in the hierarchy will have over the activities of each of the organizational units that report to it. In general, the senior executive of an organizational unit will need to retain certain fundamental responsibilities with respect to the units that report to him or her including the right to appoint the managers of the reporting unit and review and approve the reporting unit's operating plan and budget and the duty to monitor the performance of the reporting unit and intervene when a crisis or other unforeseen problem arises within the reporting unit. Beyond these activities, which are necessary for adequate due diligence control, there is a wide spectrum of approaches that can be taken in structuring the reporting relationship. For example, at one extreme a senior executive may be intimately involved in the day-to-day activities of the organizational units reporting to him or her. This is likely to occur when the reporting units are function-focused and the senior executive is responsible for integrating the activities of several different functions to achieve his or her own performance goals, as is the case for senior executives of business units that have their own dedicated set of functional resources. An example of an entirely different approach is when the parent unit intentionally keeps it distance from various business units and allows them to act autonomously except for issues such as cross-unit brand management that absolutely require parental involvement. In any event, the primary challenge for senior executives of the parent and major business units is determining how much influence to attempt to exercise over lower organizational units and how much responsibility and authority should be reserved for the senior executives as opposed to delegated down to the units. Once that decision is made is should be clearly described and communicated to all parties so that managers in the lower organizational units know exactly how much freedom that will have with respect to the activities of their units.

§1:6 --Lateral relationships

In addition to the vertical reporting relationships described above, the description of the organizational structure must provide guidance to the senior executives of each organizational unit on lateral, or horizontal, relationships with other units as to which it does not have a reporting relationship. Lateral relationships generally fall into one of five main categories including mutual self-interest; pressure group/principal; service provider/client; resource owner/user; and team. Each of these relationships is very different and each raises its own unique challenges and concerns; however, the fundamental issues generally boil down to the relative power and influence of the applicable organizational units when joint decisions must be made and the extent to which collaboration between the units is optional or mandatory. It is important for the organizational structure to clearly specify the intentions of the senior executives of the parent unit regarding how these relationships are expected to work; however, beyond that it is recommended that further details be left to the unit managers as they learn from communicating with managers of other units and special situations arise that lead to further "on the job" refinement of the relationships. Of course, if the unit managers are unable to successfully and effectively manage crucial lateral relationships the senior executives will need to intervene to avoid disruption to key work activities.

§1:7 --Accountabilities

The rules and guidelines for any organizational structure must also include a clear definition of the accountabilities for each organizational unit—the measures that will be used to evaluate the performance of the unit. In most cases the performance measure for a business unit will be bottom-line profitability; however, it is also possible and often necessary and appropriate to include other goals that encourage collaboration with other organizational units. The selection of performance measures is important since they will dictate the priorities established by the senior executives of each organizational unit for the day-to-day activities of the unit. For example, if the performance of a unit is completed tied to profitability it is unlikely that the senior executive of the unit will invest much, if any, time or resources on activities that are not directly related to the unit profitability. Performance measures are recognized as an important element of overall organizational design and their impact goes beyond assessment of the operational and managerial efficiency of organizational units into areas of employee morale and training and organizational culture.

§1:8 Organizational structure and environmental factors

There is a general consensus that there is no single best way to formally structure an organization and it is now accepted that any specific decision regarding organizational structure depends on identifying the best fit with various contingent factors—both opportunities and threats—that are relevant to the organization at a particular time. For example, contingency theory calls for organizations to be designed to fit with the level of uncertainty in the environment, the size of the organization and the nature of the technology involved in the activities of the organization. Alternatively, institutional theory attempts to explain the structure of organizations by reference to their institutional environment. Resource dependency theory claims that organizations will adopt a structure that they perceive as being most attractive to constituencies that have the resources the organization requires for its operational activities. Finally, another school of thought recommends that organizations select structural solutions that reduce or eliminate agency or transactions costs.[6]

Organizations cope with contingencies in their chosen environments by creating appropriate strategies and then attempting to design the organization in the manner best suited to effectively executing those strategies. The close relationship between strategy and design was first popularized by Alfred Chandler in his 1962 book titled *Strategy and*

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[6] L. Donaldson, American Anti-management Theories of Organization (Cambridge UK: Cambridge University Press, 1995).

Structure[7], which used detailed case studies of four large firms (Du Pont, General Motors, Standard Oil and Sears Roebuck) to illustrate the development and evolution of the multidivisional corporate structure during the 1920s. His research led to the now well known and often quoted principle that "structure follows strategy." Specifically, the organization must first identify and set its long term goals and objectives and then adopt courses of action and allocate resources to achieve those goals. Once that has been done the structure of the organization should be adjusted in line with the allocation of resources and chosen courses of action. Structure includes the selection of organizational units, the assignment of responsibilities and accountabilities to those units and the creation of lines of authority and processes of communication of information and data between units. Chandler's observations have been supported by subsequent research that has provided evidence for the general propositions that organizational structure affects performance and that changes in strategy require a reassessment of structure.

An effective organizational structure should fit closely with both the product-market and overall strategies of the organization. With regard to product-market strategies this means that the persons responsible for designing the organizational structure should be sure that sufficient weight has been given to the operating priorities and intended sources of advantage in each product-market area identified as important to the organization. When addressing overall strategies, including which products and markets should be part of the organization's activities, it is essential to identify how the organization plans to gain advantage from competing in multiple product-market areas and the intended sources of "value added" from the parent and to make sure that they can flourish in the structure that is selected. In addition, consideration must be given to the skills, motivations, strengths and weaknesses of the available human resources. This is important because it is not always possible to change personnel and identify and recruit new people thought to have the skills necessary to execute the activities required of the modified structure. Finally, the various organizational units must be built around any legal, institutional, environmental, cultural or internal factors that might constrain the viability of an otherwise desired structure.[8]

§1:9 --Market advantage

The organizational structure should support the strategies and associated operating initiatives chosen for each product-market area and the persons responsible for designing the organizational structure must ensure that the structure allocates sufficient management attention and other resources to the operating priorities and intended sources of advantage in each product-market area. One way that his can be done is through the creation of identifiable organizational units focus on a specific product line and/or market. For example, if the organization decides to focus more on products than on customers or countries it will opt for the establishment of product-focused business units. Similarly, if the organization is looking to launch a new business in a particular geographic region it probably makes sense to create a region-focused business unit as

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[7] A.D. Chandler, Strategy and Structure (Cambridge, MA: MIT Press, 1962).
[8] M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002), 6-7, 30-43.

opposed to leaving the initiative to smaller foreign sales departments spread out over multiple product-focused units. Another illustration is the choice to place certain functions (e.g., payroll services) into a shared service unit to provide services to the entire organization as opposed to dispersing the personnel into each business unit as a small support department.

Consider the situation where the organization decides to compete in a specific product-market area through product innovation and providing superior technical service and support to its customers. These are the strategic elements of the organization's plan for the business unit and will likely be supported by several directly related operating initiatives such as higher levels of investment in new product development and upgrading information technology systems to provide technical staff with the necessary support to deliver the projected level of customer service. From a structural perspective, this means that the organization should probably place new product development activities into a separate core resource unit perhaps with a formal link to the parent-level research function to monitor the use of what is likely to be a significant allocation of capital from the parent. Another example of how strategy and structure must be synchronized is when the organization believes that it is necessary to combine product offerings to offer an integrated solution to customers in a given product-market area. In that case the activities associated with both products may be placed into a single business unit or, at the very least, formal procedures should be established for strong communications between the groups responsible for managing the relevant products. Finally, if the strategy for a particular product-market area involves changing the product mix the appropriate operating initiatives might include divesting mature product lines or redundant assets. In order to execute these initiatives the product lines or assets may be moved into a separate unit that will be easier to sell.

A real understanding of the strategic focus of the organization in each product-market area is essential to assessing the actual strengths and weaknesses of the current organizational structure as well as any proposed changes. For example, if the senior executives of the organization propose to compete by offering customers an integrated suite of products and services customized to their needs then the structure necessary to support this strategy must clearly and unambiguously give greater power and authority to market-focused business units than to product-focused units. Shifting the balance of power to product units, or even using a matrix structure with equal power to both products and markets, will almost certainly lead to problems executing the chosen strategy since there will be difficulties coordinating the product-related activities to conform to the requirements identified by the market units dealing with customers.

§1:10 --Parenting advantage

The choice of product-market areas by the organization is not, and should not be, a random process. Instead the senior executives within the parent unit should identify those areas in which the parent can be expected to provide the most "value added" as it builds and manages the organization's portfolio of products and markets. In fact, strategy is best seen as the selection of product-market areas and the choice of how to manage and invest the resources of the organization across those areas. Execution of this strategy requires buying and selling businesses, investing in the development of new businesses or expansion or transformation of existing businesses and influencing the actions of the executives selected for each of the product-market areas and other organizational units. These activities have been analogized to the "parenting" skills in a family situation and will depend on a variety of things including the skills of the organization's senior executives at the parent level and, of course, the specific requirements of the businesses in the product-market areas. A "parenting advantage" comes from the ability of the parent to add more value to a particular business than the parent entity of a competitor.

In order to take a potential parenting advantage into account during the process of designing the organizational structure the designer must first identify and list the major parenting propositions—the sources of added value—and the related parent-level strategic initiatives. The next step is to ensure that the structure gives sufficient attention and resources to each proposition and initiative. Parenting propositions usually have a direct impact on the size and activities of the headquarters office. For example, if the parent unit is interested in integrating several otherwise diverse businesses to identify and exploit opportunities in a new area it may deploy a large central office staff to sponsor and facilitate a wide range of projects and other activities at the highest level in order to ensure that managers from the various business units meet and communicate to maximize the chances that new opportunities will be uncovered. This path has been taken by organizations looking to transform into life sciences businesses through integration of traditional pharmaceutical businesses and emerging biotechnology businesses. On the other hand, if most of the authority for managing the various businesses has been downward to clearly defined product-market business units the parent may limit its activities to monitoring and mentoring the senior executives of each unit and thus dispense with the need for large amounts of headquarters staff.

§1:11 --Human resources

Human resources management is an important element of organizational design and any proposed organizational structure should be tested to determine whether it adequately reflects the motivations, strengths, and weaknesses of the available people. Several important questions need to be asked with respect to staffing the key roles necessary for the proposed new organizational structure to be effective and successful. First, a list should be compiled of the organizational roles that will be essential to successful operation of the organization once the structure is implemented. Second, an evaluation must be made of the difficulties that can be expected in finding competent managers and other personnel from within and outside the organization to fill each of the essential roles. Third, the current senior managers of the organization should be identified and an analysis should be made as to how they would fit into a proposed new organizational structure and whether they would be committed to making the new structure work. Finally, a list should be made of other talented personnel currently within the organization who are not senior managers and an assessment should be made as to whether the proposed new structure would fully utilize their skills.

Making sure that the right personnel are available to execute a proposed organizational structure is an absolutely critical consideration that should not be overlooked regardless of how attractive the structure might appear to be on paper. For example, consider the situation where several diverse businesses that have been neglected in their current organizational units have been identified and it is proposed that these businesses be moved to a new business unit where they can receive more attention. While this may make sense from a business perspective the move should not be made until a search of the organization's available resources has been made to determine whether there is a suitable "in house" manager with the business and technical skills to understand all the businesses in the proposed portfolio. If no candidates are found internally, consideration might be given to recruiting from outside the organization; however, bringing newcomers into the mix might be seen as adding too much risk on top of what was already a highly uncertain situation. After recognizing, and attempt to resolve, this important "people" problem, the appropriate decision might be to spin off some of the businesses and place the remaining ones into other business units in the new structure so that they receive adequate attention from managers with known skills and experience who already had some familiarity with their needs. A separate review process for these businesses should be created in order to carefully monitor their progress and determine whether further changes in the structure would be necessary.

§1:12 --Constraints

While strategy and personnel can be changed, albeit often with some difficulty, there are certain factors that may be more difficult to avoid or ignore when creating a potential organizational structure and which may ultimately make a proposal unworkable. These "constraints" can be broken out into a variety of categories, not all of which may be applicable to a given situation. The most common issues that may arise are as follows:

- Legal and regulatory issues including ownership and governance requirements for certain types of legal entities and specific laws and regulations that impact the manufacture and sale of certain types of products and/or the workplace procedures of one or more management units;
- Institutional and stakeholder issues including the requirements of major ownership groups, industry associations and/or capital markets in the case of public companies;
- Other external issues including culture and customs in the areas in which the organization operates, labor unions and other pressure groups; and
- Internal issues including the historical culture of the organization and the accompanying capabilities and potential resource constraints in key areas such as information technology.

The effect of various constraints can be illustrated by a few examples. A common issue when considering a potential foreign investment is the need under local law to align with a local partner that would necessarily have the right to participate in management decisions. A similar problem arises when acquiring a majority interest in another firm without taking full control since applicable law may provide minority investors with veto rights over certain transactions. Perhaps even more important, although difficult to evaluate in advance, is the potential resistance that may arise from an inability of certain parts of the organization to overcome the administrative heritage of the organization or the inbred organizational culture. For example, if product and customer units have traditionally been at odds over pricing strategies and/or service and support requirements a new structure alone will not automatically smooth the waters between these two groups. Accordingly, knowledge of feuds within the organization should alert the designer to focus on the need to address these potential communication and cooperation problems in advance in advance. On the other hand, if the managers of two contiguous countries have a history of good relations than the designer may be comfortable rely on informal networking between the two manager groups as opposed to spending time and effort on more detailed coordination schemes. Finally, if attempts to implement a particular structural element, such as a shared service unit, have not been successful in the past the designer should be understandably reluctant to make that element a cornerstone of any proposed new structure.

Another interesting constraint should not be overlooked is the ability of the organization to collect, analyze and disseminate all of the information necessary to make a new organizational structure effective. For example, consider an organization previously organized on a functional basis that is looking to transition to several new market-focused business units in order to be more competitive and responsive to customers in specific industries. Given the historical strategy of the organization the information technology system was set up to deliver information on how each function performed; however, in order for the new structure to work it would be necessary to invest in the technology and personnel to produce profitability data for each new business unit. This process can be expensive and time-consuming since the organization will need to install new equipment and train managers and employees about how to use it. In addition, the system will need to be customized to suit the particular requirements of the organization.

Chapter 2
Taxonomy of Organizational Units

§2:1 Introduction

In order to provide senior executives and other involved in the organizational design process with the requisite tools to create a proposed structure for the organization it is useful to develop standardized definitions for the key management units (i.e., groupings of human and other resources) that are normally found in any good organizational structure solution. The definition should specify the responsibilities, relationships and accountabilities for each type of unit. Obviously these definitions will be generic and serve merely as prototypes for the participants in the structuring process; however, they are extremely valuable in creating a common language that can be referred to during the actual organizational design process. The sections below provide an overview of each of the following organizational units[9]:

- Business units are product/market-focused and profit-responsible units, sometimes referred to as "divisions," with relatively high decision-making authority that report directly to the parent unit (e.g., CEO).
- Business functions, sometimes referred to as "departments," are responsible for performing specific operating functions (e.g., manufacturing or sales) within a business unit and report to the senior executive of that business unit.
- Sub-businesses are product/market-focused units that serve specific business segments within a broader business unit.
- Overlay units are product/market-focused units that serve segments that are defined along dimensions that cut across those associated with the regular business units.
- Core resource units are responsible for the development, maintenance and nurturing of scarce resources (e.g., research and development) that are considered essential to the competitive advantage of all the business units within the organization.
- Shared service units are responsible for providing services that are needed to support the activities of several other business units within the organization.
- Project units are temporary units formed to complete specific tasks or projects that cut across the regular activities of other permanent units.
- Parent units are at the upper level(s) of the organization (i.e., "headquarters") and are responsible both for carrying out obligatory corporate tasks and for influencing relations between other units and providing "value added" input to other units.

It is difficult to generalize about how the units and groups within any specific organization should be classified; however, it is typical for an organization to grow to the point where it has various business units that focus on customers or products and overlay units created to coordinate activities in particular geographic markets. In addition, staff departments focusing on human resources and information technology will usually be

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[9] M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002), 158-176 and 188-205.

shared service units; however, it is also possible for those departments to become and remain core resource units depending on the activities and strategy of the organization

Each of the units also has its own unique set of responsibilities, relationships and main accountabilities. For example, business units and sub-businesses are required to focus on, and become responsible for, specific markets while the responsibilities of core resource and project units are obviously focused on building and maintaining valuable resources and executing projects respectively. Business units are held accountable to their bottom line and their ability to generate revenues and profits that meet or exceed expectations. As such, business units are relatively easier to monitor and evaluate. On the other hand, a core resource unit is evaluated on the way in which resources are developed and utilized within the organization and this obviously requires different measurement tools than those used to assess business units. Finally, while the highly autonomous business units generally need not develop strong lateral relationships with other units unless there is a mutual advantage to both units, the success of a shared service unit is highly dependent on its ability to forge relationships with business and overlay units through communications and providing cost-effective services.

§2:2 Business units

Business units are the fundamental elements of any organizational structure and should be formed in order to focus management attention and resources on those product/market segments that have been selected by senior executives as being most important to exploiting the identified competitive advantage of the organization. Each business unit is responsible for developing the specialist skills that are believed to be necessary in order for the unit to be successful in the target product/market segments and for aligning the activities on the value chain in a way that maximizes the value that can be created in those segments. Business units report to the parent unit—usually directly to the CEO; however, the senior executives of each business unit are typically given a high level of autonomy including the discretion to decide which customers to focus on within the segment and which products and services to provide within the segment. Depending on the situation, the parent unit may reserve certain powers that control the authority of business unit managers but the parent usually is not involved in day-to-day operations of the unit. Relations between business units are generally based primarily on mutual self-interest and relations with other units may be more interdependent based on the rules established by senior executives of the entire organization. Business units are held strictly accountability for their bottom-line performance with a particular emphasis on meeting and exceeding specific goals relating to profitability.

§2:3 Business functions

Business functions refer to groups of people engaged in organizational roles that require similar skills, training and experience and which use the same types of knowledge, tools, procedures and techniques. Katz and Kahn have usefully broken out functional groups into several broad categories of functional tasks—support (e.g., purchasing or procurement, sales and marketing, legal and public relations); production (e.g., logistics and operations, production control and quality control); maintenance (e.g., personnel or human resources, engineering and maintenance or janitorial services); and adaptive (e.g., research and development, market research and strategic planning).[10] When the organization is small and activities are confined to a single product or limited group of related products being sold to a relatively narrow market the business functions are free-standing departments; however, as the organization grows and business units are created decisions must be made as to which business functions will reside within the various business units. The answer depends on which of the specific value chain activities are needed by the business unit to achieve its purpose and discharge its responsibilities. The purpose of establishing a function within a business unit is to achieve the benefits associated with integrating the functional activities closely with all the other activities within the unit. The main responsibilities of these business functions are achieving functional excellence and cost-effectiveness in ways that directly contribute to the overall success of the business unit.

Because business functions are created to support business units the functions must report directly to the senior executive of the business unit and he or she will have the ultimate authority with respect to decisions relating to the functions. Notably the business unit senior executive is normally given the discretion to design each of the business functions that report to him or her and determine the extent to which powers may be delegated to the functions. In most cases the senior executive will likely retain significant responsibility and control over major functional decisions that will have the greatest impact on the performance of the business unit. For example, the business unit senior executive is usually heavily involved in setting marketing strategy and in vetting proposed investments in information technology systems that will be used to link personnel within the business unit. Of course, in order for the senior executive of the business unit to be effective when intervening in functional decisions he or she must have sufficient information about, and closely involved with, the relevant functional activities in order for his or her input to have value and legitimacy.

Each business function in a business unit must work with the other functions in the unit as part of the unit's senior management team. The senior executive of the business unit is responsible for overseeing this management team and will use the power and influence of his or her position to coax the functions into collaborating with one another in order to achieve the overall goals of the unit. In light of these responsibilities in their lateral relations, as well as the reporting relationship described above, the business functions have relatively little autonomy in how they conduct their activities. For example, major disagreements between the R&D and sales functions simply cannot be tolerated as this would severely undermine the ability of the business unit to achieve its goals and objectives. As a result, functional managers within a business unit often complain that they are unable to develop and maintain specialist skills and expertise and it may eventually make sense to create strategies that focus on nurturing the skills of talented specialists to avoid costly attrition and accompanying deterioration of the knowledge and experience base of the organization.

[10] D. Katz and R.L. Kahn, the Social Psychology of Organizing (New York: Wiley, 1966)

Given the limitations on their autonomy imposed by their reporting and lateral relationships, it is not fair or practical to evaluate the performance of business functions simply by referring to function-specific measures. For example, using sales revenues alone to assess the performance of the sales function within a business unit may not be appropriate if the function has been forced to cutback on its advertising campaigns in order to allow the larger business unit to stay within its budget. While function-specific measures should be part of the mix there must also be sufficient opportunity for the senior executive of the business unit to affix some weight to intangible contributions that the function has made to the performance of the business unit.

In cases where a business unit creates sub-businesses, which are described below, the senior executive of the unit needs to establish an appropriate balance between which functional activities and resources will be overseen by the business unit and which will be delegated to the sub-businesses. The choice generally depends on the purpose for establishing the sub-business. For example, a product-focused business unit may set up geographic-focused sub-businesses to market and sell the products in specific foreign countries. In that situation the business unit may establish and execute strategies for research and product development and manufacturing and the sub-businesses would be given be given the latitude to develop and implement location-specific plans for selling and marketing the products in a way that will be successful in their geographic markets. A geographic-focused sub-business is also likely to have broader discretion in the human resources area and should be allowed to put its own policies in place for recruitment, training and compensation consistent with the cultural and legal environment in which it operates. Sub-businesses still need to work closely with the functions for which the business unit is primarily responsible. A good illustration is the need for sub-businesses to provide input to product development specialists within the business unit on customizing products to suit local tastes and requirements.

§2:4 Sub-businesses

As the name implies, sub-businesses are smaller units created within a larger business unit to concentrate on more narrowly defined product-market segments than the business units. The responsibility of the sub-business is to focus on developing and applying the specialist skills necessary to serve its designated segment and to influence and manage those specific value chain activities that are most important to meeting its objectives. For example, if the market segment of a business unit is defined geographically to include an entire region consisting of a number of countries one or more sub-businesses may be formed to focus on specific countries (i.e., a business unit focusing on the European Union may have sub-businesses for larger countries such as France, Germany and/or the United Kingdom). The business unit may retain responsibility for major functional activities and policies such as research and product development, pricing and manufacturing while the sub-businesses would be given the freedom to create and follow their own sales and marketing tactics and recruit, train and motivate their local staff.

In most cases the decision to break out activities into a new sub-business will be made by the senior executive of the business unit as opposed to senior management at the parent level. It is expected that the business unit senior executive is in the best position to determine the most effective means for allocating resources within his or her unit and that he or she will establish the purpose and responsibilities of each of the sub-businesses, including how much authority and discretion to delegate to the managers of those sub-businesses. The managers of each of the sub-businesses will report to the business unit senior executive and will also collaborate with other sub-business managers as part of the senior management team for the entire business unit. Sub-business managers will meet with the business unit senior executive and the other sub-business managers to ensure that the activities of all the sub-businesses are effectively coordinated. Sub-businesses will also be expected to conform to policies and procedures applicable throughout the business unit and share ideas from their experiences that might be useful in product-market segments covered by other sub-business units.

Each business unit will inevitably form its own specific culture and the relationship among the various sub-businesses within the unit will be an important determinant of that culture and how people interact with one another. Sub-business managers must be prepared to actively participate as members of a large team working to achieve the overall performance goals set for the entire business unit by its senior executive and the CEO of the entire organization. It is also expected, however, that sub-businesses will mix teamwork with independence and that friendly competition will emerge among sub-businesses seeking to achieve the best performance among all the sub-businesses in the same larger business unit. In fact, it is hoped that sub-business managers will see their assignments as real opportunities to demonstrate their leadership and entrepreneurship, as opposed to simply seeking and following directions from the senior executive of the business unit. Too much competition should be avoided though and rewards and incentives should be put in place to reinforce values of collaboration and communication in appropriate circumstances.

Given their focus on product-market segments, sub-businesses are generally held accountable to profitability measures similar to those applied to the business unit in which they are located. In fact, it is common to refer to sub-business units as "profit centers." In fairness, however, it should be acknowledged and understood that sub-businesses do not have the same level of autonomy as business units and are usually constrained by decisions made by the senior executive of the business unit which are thought to be in the best interests of the entire business unit even if they are sub-optimal for particular sub-businesses. Perhaps the best way to judge and reward the performance of sub-businesses is by reference to the performance of their peers (i.e., other sub-business units engaged in comparable activities and vested with similar levels of discretion) with the caveat that some credit must be given for valuable collaboration with other sub-businesses.

§2:5 Overlay units

Overlay units are frequently used to ensure that management attention is focused on strategic dimensions that might otherwise be intentionally or inadvertently ignored by the business units. Overlay units, which have responsibilities that are very similar to business units, focus on areas that cut across the product or market segments that the business units have been created to serve. For example, if the business units are product-focused the overlay units may be formed in order to focus on geographic regions, customer groups and/or major accounts. Similarly, if the organizational structure is anchored by geographically-focused business units it may be useful for senior management to authorize the creation of overlay units that pay more attention to products and services or customer groups. Forming an overlay unit is not a task to be taken lightly as it significantly increases the complexity and costs of the organizational structure. Accordingly, before an overlay unit is launched attempts should be made to rely on informal networking to achieve some of the desired product-market focus. For example, managers of various products may consult regularly to determine the best product mix for an important customer even before a customer-focused overlay unit is established.

Overlay units have their own dedicated management team responsible for the specified product or market segment. Beyond that, however, there is a substantial amount of diversity regarding the authority and resources allocated to overlay units to pursue their objectives and garner the attention and cooperation of other business units. For example, it is possible for an overlay unit to be given its own budget and the right to make decisions with respect to value chain activities related to its mission; however, the more typical situation is that overlay units have limited budgets and staffing. Overlay units are generally associated with a matrix organizational structure which means that persons discharging various organizational roles will be reporting to managers with primary responsibility for activities in different strategic dimensions. In order for these arrangements to be successful, and for the overlay units to achieve their desired purposes, clear rules must be established regarding communications and decision making.[11]

The reporting relationship for the senior executive of an overlay unit is, like business units, to the parent unit. Parent units typically are not involved in the day-to-day activities of overlay units; however, the senior executives of the parent unit must be prepared to actively intervene in disputes between overlay and other units. Even though the parent unit has taken the initiative to establish the overlay unit to address specified product-market issues it should be recognized that the business units will ultimately have the final say in most decisions that must be made to resolve actual or potential conflicts between the business and overlay units. The lateral relationships of overlay units with other units are based on the overlay unit acting as a pressure group that vigorously argues its points on behalf of the strategy that it believes to be best for its specific product-market area. Given the lack of autonomy and the need to defer to the decisions of the business units, it is not appropriate to measure the performance of overlay units by reference to profitability. Use of such a bottom-line measure involves complex allocations of revenues and costs between business units and overlay units and may also lead to unforeseen negative impacts on the profitability of business units. Alternative performance measures for overlay units include sales revenues and/or customer satisfaction within the product-market area served by the overlay unit.

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[11] For further discussion of matrix organizational structures, see "Basic Models of Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

While the primary purpose of establishing an overlay unit is to ensure that a potentially attractive product or market segment is not ignored or abandoned by the business units that will dominant the "regular" organizational structure, overlay units can also be used as a way to gradually introduce fundamental change into the strategy and structure of the organization as a response to environmental factors. For example, if the senior executives within the parent unit wish to transform a product-focused organizational structure into one that places more emphasis on creating solutions for major customers they can form an overlay unit with a dedicated management team to concentrate on key accounts. While the initial overlay unit does not have to be given a large budget or authority to make decisions, it can begin the process of continuously lobbying the product-focused business units to set their strategies with an eye on specific requirements of important customers. As time goes by the overlay unit can be given more power and authority in certain areas such as discount policy, distribution and advertising. The final step would be a complete re-alignment of the organizational structure to create customer-focused business units in place of the product-focused business units that have become obsolete in light of the changes in the organizational strategy.

§2:6 Core resource units

The need for core resource units should always be considered in designing the organizational structure in order to ensure that sufficient management attention is focused on the development and nurturing of those resources that have been identified as critical to attaining and maintaining competitive advantage for multiple business units. The fundamental assumption underlying creation of a core resource unit, as opposed to embedding activities related to the resource in individual business units in the form of business functions, is that there are real and substantial benefits and efficiencies to the focus associated with a core resource unit. Examples of the subject matter of core resource units include research and development, information technology, manufacturing, sales, distribution and e-business. Larger organizations may create multiple core resource units to focus on different aspects of similar activities such as different technology platforms. One illustration of this is the way that organizations operating in the biotechnology industry create core resource units to facilitate an integrated approach to certain key technologies.

The senior management team of each core resource unit is responsible for establishing and administering a comprehensive plan for development and use of its resource and establishing the resource as a true source of competitive advantage for all of the business units within the organization. As part of these responsibilities, the managers must recruit, hire and train the right people, develop their skills over time and provide them with adequate tools for them to achieve the desired level of competitive prowess. Given that the resource is considered essential to competitive advantage the use of a separate unit is absolutely necessary to create the requisite focus and attention and achieve critical mass and economies of scale. A core resource unit is also important given that it is quite likely that development of the resource and its personnel will require a specialist culture that could not flourish if the activities were imbedded in a parent or business unit.

Core resource units report directly to the senior executives at the parent level. While the management team of the core resource unit must be given autonomy to determine the priorities and plans for the unit, the parent must remain involved in monitoring the activities of the unit and must have a say in all important decisions relating to the unit and be prepared to intervene in disputes that may arise between the core resource unit and other units. Core resource units will have several lateral relationships with other units that need the particular resource for their own activities. It is essential for the parent to be involved in setting and maintaining clear rules for the relations between the resource owner and users in other units and a premium should be placed on the ability and willingness of the resource owner to assist users in determining the best way for them to utilize the skills and resources of the core resource unit. The worst situation, unfortunately not uncommon, is a core resource unit that is perceived as being too arrogant and independent and unwilling to consider the practical needs of other units. The risk of this type of scenario places a premium on hands-on monitoring of the lateral relationships of the core resource unit by the senior executives at the parent level.

Accountability measures for core resource units are more difficult to define than for business units. In general, core resource units should strive to achieve recognition for the quality and cost-effective of their services. Specific performance measures tend to be a mix of objective criteria, such as the number of new products and technologies generated by a service unit over a period of time, and more intangible goals measured by reference to relevant skills of unit personnel. For example, in many disciplines there is a correlation between patent applications and publications on the one hand and the recognition of the group as leaders in the area. In order to be sure that core resource units are fairly and accurately assessed senior management at the parent level must make an effort to be well informed regarding developments in the areas of concern to the unit.

§2:7 Shared service units

Shared service units are formed in order achieve the benefits available from focusing management attention and necessary resources on non-core functional services—services that do not warrant formation of a core resource unit—that are nonetheless necessary for the activities of several other business units. Shared service units evolved from the traditional structure in which service activities now conducted by such units were originally carried out within a larger functional unit such as research and development, finance or manufacturing. In that situation there was a substantial likelihood that the senior executive of the functional unit was too diverted with other responsibilities to provide the necessary attention to the particular service and business units often complained that the services could be obtained more efficiently from outside sources but that they were prevented from contracting with outside sources by organizational rules and regulations. While some organizations eventually responded by permitting outsourcing of those services and removing them from the larger functional unit this often led to a loss of control and it was felt that users within the organization could be better served by the creation of shared service units dedicated to responding to the needs of other units with respect to particular activities.

The services provided a shared service unit will vary depending on the situation. In general, shared service units are appropriate for standard, process driven, transactional activities, such as payroll or payments processing; however, shared service units may also be used for sophisticated professional services such as development of applications software or business research and intelligence. In any case, the primary responsibility of a shared service unit is to provide services that meet the needs and requirements of other units on a cost-effective and high-quality basis. There are similarities between the purposes of core resource and shared service units; however, a major distinction is that shared service units do not provide services identified as critical to the competitive advantage of the organization. As a result, one can observe interesting variations in the rules that might be established governing the lateral relationships between the shared service unit and its prospective users in other units. It should be noted that while shared services units are seen differently than core resource units they are nonetheless thought of as a valuable alternative to distributing the services throughout the business units they serve due to potential advantages that a shared service unit might realize with respect to economies of scale and benefits of specialization.

Shared service units report to managers within the parent unit and it is common for the parent to designate a specific shared services manager to provide more attention to shared services and relations between the shared service units and their internal customers (i.e., other business units). In most cases, however, the parent unit is not likely to intervene in the day-to-day activities of shared service units apart from setting parent-level guidelines and procedures relating to certain aspects of the relationship between shared service and business units. Common examples of guidelines and procedures include service level agreements, transfer pricing guidelines and formal conditions on if (and why) one or both of the shared service or business units may opt out of contracting with the other and thus permit or create a situation in which the business unit contracts with outside sources.

As is the case with core resource units, lateral relationships are the key to the success of any shared service unit and the unit should be aggressively "customer-driven" and directed by what the business units say that they need as opposed to how the shared service unit would prefer to define and offer its services. In some cases shared service units may actually be set up as profit centers that vigorously compete with potential outside vendors to secure the business of internal users while meeting bottom line performance goals. The more common situation, however, is to encourage less stressful and more collaborative relationships between shared service units and the business units and to avoid costly contract negotiations and the upheaval that might occur if and when a user decides to procure services from other sources. Also, it is believed that too much emphasis on profitability by the shared service unit might lead to shortcuts on the quality of the service that would ultimately damage the performance and profitability of the user. If possible, evaluation of shared services units should include a definite emphasis on costs and, even more importantly, the level of customer satisfaction. While not as easy to evaluate as profitability, costs and customer satisfaction can nonetheless be measured and evaluated objectively and fairly. In most cases, the scope and quality of services, as well as the associated costs, can be benchmarked against those available from third parties.

§2:8 Project units

The various units described above are relatively permanent in that they are established with the intent that they will continue to be part of the organizational structure unless and until material changes are made to the organizational strategy that warrant structural changes. In addition, however, organizations often establish project units in order to take advantage of the benefits available from focusing on specific tasks or activities that cut across the responsibilities of other units with the assumption that the life cycle of the unit will be tied to the particular project and that the unit will exist only for a limited duration. Project units may be formed at various points within the organizational structure and are often created within business units or sub-businesses. For example, project units are commonly used for new product development and in those cases would involve representatives from several business units and business functions as well as a core resource unit dedicated to research and development if one has been established. Project units may also be used for "turnkey" projects, such as construction projects, when it is necessary to combine products and services from several different business units. Professional services businesses, such as law and accounting firms, often create project units in order to staff and manage specific client assignments such as mergers and acquisitions, public securities offerings and audits and investigations.

While project units are technically responsible for carrying out specified tasks or projects, their power and authority can vary substantially with a corresponding impact on their ability to successfully achieve their initial goals and objectives. On the one hand, a full-time team of managers can be appointed by the senior executives of the applicable sponsoring unit (i.e., the parent unit or a particular business unit) to oversee a particular project and substantial authority can be vested in this with respect to overriding other units on key issues such as pricing, product design or customer contact. Project units may also be supported through their own budget and by intervention from the applicable sponsoring unit in the event that conflicts arise between project units and other units. At the other extreme, project units may have no formal staff or budget and will need to rely on the cooperation and goodwill of other units including the units from which the members of the project unit are drawn and any other units that are involved with the activities of the project unit. In that situation the project and other units find themselves in pressure group—principal relationships and the success of the project unit may be based solely on the strength of informal communications between representatives of different units who have a stake in the particular project.

A project unit typically reports to a specific manager in the applicable sponsoring unit and this manager may either be very involved or take a "hands off" approach depending on the personal skills and interests of the manager and what is most effective in relation to the particular project. The bottom line accountability measure for any project unit is timely and complete delivery of the project; however, performance may be difficult to fairly measure due to the fact that project units often have limited or no control over their resources and the goodwill and cooperation of other involved units. Another thing to consider, albeit also difficult to evaluate, is the potential negative impact that the project unit and its activities might have on the performance of other units. For example, if a project unit is formed to facilitate development of a new product and the project drains personnel and other resources from ongoing activities in the marketing functional unit there may be an unforeseen cost to the project in the form of reduced performance in the marketing unit.[12]

Some of the coordination activities undertaken by a project unit could presumably be carried out through informal mechanisms. Some of the alternative mechanisms for achieving integration of activities and resources residing in different units include rules and procedures, direct personal contacts and relationships, liaison arrangements, task forces and teams.[13] However, in some cases the need for integration is too important to be left to chance and project units, as with overlay units, create real potential benefits to the organization by ensuring that sufficient management attention is paid to issues and activities that cut across other units. In fact, project units can be the first step in redirecting the resources of the organization to take advantage of new opportunities that might be missed or mishandled if tackled through the pre-existing structure.

§2:9 Parent units

Each of the units described above are created and managed to pursue specific goals and objectives associated with the overall strategy of the organization. Each unit is responsible in some way to senior executives and other managers residing within a parent unit, sometimes referred to generally as "headquarters." The senior executives of the organization, including the CEO, are part of the parent unit and it is expected and necessary that the parent unit take the lead in developing and disseminating an integrated strategy that is accepted and followed throughout the organization. The strategy should be supported through policies and constraints established by the parent unit that become the "rules of the road" to be followed by operating units when making decisions. In addition, the parent unit may make it known that there are certain decisions that it must approve including geographical expansion, changes in pricing policies or extension of product or service lines. Finally, the parent unit may assume responsibility for oversight of various core resources units, such as research and development or manufacturing. The later decision is part of the broader issue that must be confronted in determining what responsibilities will be retained by parent unit managers and which will be shared with (or delegated to) other units. For example, if the parent unit establishes core resource units for research and development and manufacturing then product-focused business units will presumably focus most of their attention on marketing strategy and tactics.

The parent unit also has several other essential roles. For example, it is responsible for carrying out certain minimum or obligatory tasks and activities associated with maintaining the existence of the organizational entity, including compliance with legal and regulatory requirements and complete basic organizational governance functions.

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[12] For further discussion of project management, see "Project Management" in "Management: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[13] For further discussion on integration strategies, see the chapter on "Integration Strategies" below.

Examples of legal and regulatory activities include preparing and filing annual reports and tax returns and making sure that the organization fulfills it obligations under applicable health, safety and environmental laws and regulations. In the governance area it is necessary to establish a structure for the organization, recruit and appoint the members of the senior executive team, raise capital and make investment decisions, and communicate with investors and other stakeholder groups. Good governance also means taking whatever steps are reasonably required in order for the senior executives to satisfy their fiduciary duties and establishing a system of controls so that decisions can be made and authority can be reasonably delegated to lower levels of the organization.

Another important role, which is usually more difficult to define and execute, is providing "value add" to the operating units throughout the organization.[14] The precise activities of the parent unit in executing this role are determined in large part by the applicable parenting propositions that are part of the foundation of the entire organizational structure. Typically parenting propositions could include influences in key functional areas such as manufacturing and/or manufacturing. Examples of parenting propositions include "manufacturing excellence," which is provided through the creation and support of a strong centralized manufacturing function under the direct control of the parent unit that influences business units and takes the lead in coordinating multi-business manufacturing facilities in different locations; a strong parent unit technical staff that is available to support and improve technical capabilities in various operating units; and/or a strong and widely recognized brand that can be leveraged to add value to, and generate credibility for, the whole range of businesses that have been selected for entry by the organization. Other ways in which the parent unit can provide added value in lieu of its traditional role of attempting to control all of the activities of the organization include facilitating access to capital resources that can be distributed to the various business units; managing the acquisition and development of resources needed to create and/or expand core competencies; coordinating the leveraging of the size of the organization to obtain better terms when buying and selling goods and services; and collecting, processing and disseminating proprietary information and expertise throughout the organization.

The leaders of the parent unit include the senior line executives of the organization such as the CEO, the chief operating officer ("COO"), and the division heads, some or all of which may be supported by staff functions. In most cases, the minimum parent activities include general management, treasury, taxation, finance reporting and control, and legal departments and it is common to find other activities in the parent unit such as corporate planning, government and public relations, internal audit, and human resources. Each of the parent functions are led by senior managers within the parent unit who are expected to work closely with one another as part of the parent unit management team to influence, and add value to, the relevant operating units. Each of the parent functions are accountable for contributing to the efforts of the parent unit to add value to the operating

[14] On the subject of corporate "value add," see also J.R. Galbraith, "The Value-Adding Corporation: Matching Structure with Strategy", in J.R. Galbraith, E.E. Lawler, III, and Associates, Organizing for the Future: The New Logic for Managing Complex Organizations (San Francisco: Jossey-Bass, 1993).

units through the successful execution of the parenting propositions and should be required to provide regular reports to senior executives within the parent unit on how they have fulfilled their responsibilities.

Personnel in the various parent functions are responsible for developing specialist expertise relevant to the minimum parenting activities and assisting senior line managers (i.e., managers in the various operating units) in carrying out those activities. In addition, emphasis should obviously be placed on developing specialist skills directly related to the specific parenting propositions and developing and executing strategies for disseminating the unique parent skills and resources throughout the operating units. Given the diversity of parenting propositions it is not surprising to find wide variation in the size and composition of the parent staff functions. For example, if the parenting proposition consists of high-quality manufacturing or technology expertise it is likely that the related parent staff will be relatively large. On the other hand, if the primary role of the parent is to oversee and protect the brand used by the various business units in the organization then the parent staff will generally be much smaller.

One of the decisions that must be made when designing the organizational structure is whether functional activities performed by the parent unit should be transferred to a separate operating unit such as an overlay unit, a core resource unit or a shared service unit. For example, if one of the parenting propositions is assisting business units in working together to provide better service to shared customers or realize efficiencies in new product development then parent staff may be assigned the responsibility of establishing coordination committees, advising on overlap issues and providing relevant specialist skills. Alternatively, a project unit may be formed as an overlay on the impacted business units to perform the necessary coordination activities. If that option is selected the staff within the parent functions will either be transferred to the project unit or assigned supporting duties in relation to the project unit. Similar issues may arise when deciding whether to form a core resource or shared service unit to carry out certain activities or have those activities carried out by functional departments within the parent unit as part of the broader parenting propositions. As a practical matter there may be little to the distinction except for the degree to which other members of the management team of the parent unit may be involved with the particular activities.

Confusion sometimes arises when a single functional department assumes a variety of roles that might otherwise be associated with both parent responsibilities and responsibilities that could be assigned to core resource or shared service units. For example, it is not uncommon to find IT personnel simultaneously implementing basic operations reporting processes, a minimum parenting activity; providing specialist services to support major IT investments that will impact the entire organization, a “value-added” parenting activity; developing and implementing proprietary systems related to a crucial competitive advantage of the business units, a core resource unit activity; and offering transaction processing services to the business units, a shared service unit activity. In fact, individual members of the IT department may divide their time and attention between two or more of these roles. The danger of this situation is a possible lack of focus by the IT staff and potential misunderstandings between the IT staff and the business units as to their mutual duties and expectations when communicating on a particular issue. It is recommended, therefore, that different roles be split up into separate and distinguishable units so that everyone is clear about responsibilities and accountability; however, processes should be created to ensure that personnel in each of these units continue to share specialized expertise that can be used in all of the aforementioned activities.

As the organization's environment becomes more complex and its structure evolves new challenges are continuously created for personnel within the parent unit. Organizational senior executives and other parent unit managers must be involved in monitoring and guiding coordination of activities among a growing number of organizational units, designing and implementing complex tools and procedures for monitoring the performance of those units, establishing and maintaining the organizational context required for effective communications among units, and continuously defining the roles and responsibilities of those units. The jobs of parent level managers have been made more difficult due to the fact that they can no longer rely on the authority historically vested in them as part of the traditional hierarchical structure given the move toward pushing decision-making to lower levels of the organization, establishing self-managed groups and relying on networking to achieve coordination within a large organization. Parent level managers must now develop the softer skills necessary to support a networking culture and resolve disputes among organizational units. Another important change that impacts the way in which parent level managers carry out their jobs is the new independent role of staff functions such as finance, human resources and information technology. In the past these functions were largely carried out and controlled at the parent level; however, it is now possible, and even likely, that these services will be moved into core resource or shared service units and thus muddy the waters when it comes to identifying areas in which the parent is expected to assert authority and control.

Chapter 3
Designing an Effective Organizational Structure

§3:1 Introduction

Designing an effective organizational structure can be a daunting task particularly when the organization has already grown to the point where it is actively selling multiple products and services in diverse customer and/or geographic markets. In order to make sense of the process it is important to begin with the following steps, each of which is intended to force those persons involved in the design process to focus on the key issues that need to be addressed in order for any organizational structure to be effective[15]:

- Determine which specialist skills are needed by the organization to effectively conduct all of the activities necessary for the organization to produce its products and services and ultimately develop core competencies that can create a competitive advantage for the organization.
- Identify all of the important activities that require coordination between different organizational units—"difficult links"—and determine whether coordination issues can be left to informal networking between the involved units, which is the preferred situation, or whether formal coordination mechanisms, including the use of self-contained units, must be built into the organizational structure.
- Determine whether there are skills or resources that are likely to create a unique competitive advantage that must be nurtured outside of the normal organizational structure in an autonomous organizational unit (i.e., a core resource unit).
- Identify the location within the organization of the knowledge and competence best suited to address and resolve key operational issues.
- Identify the appropriate external and internal customers for the products and services of each organizational unit and establish performance measures that track how the needs of those customers are being served by that unit.
- Determine what elements can be included in the organizational structure to increase its flexibility and ability to adapt quickly to unforeseen future changes in the environment in which the organization operates.

While each of the steps above is important and discussed separately, the reality is that they are closely related and the persons involved in designing the organizational structure should be prepared to set priorities and accept compromises in certain areas. A common illustration is the well-known challenge of balancing specialization and coordination. While success in each of these areas is beneficial and advantageous simultaneous pursuit often leads to conflicts and difficult tradeoffs where it is not possible to have one without reducing the other to some extent. For example, most organizations would welcome the opportunity to develop superior skills and experience in each functional area that is relevant to their business and activities. Of course, this could be achieved by a function-

[15] M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002), 7-11.

focused organizational structure since this is most likely to achieve the desired specialization skills in these areas. However, the emphasis on functional autonomy may lead to significant challenges when coordination among functions is necessary in order to pursue a product- or customer-focused strategy. Similarly, by creating a number of small market-focused organizational units with their own research and sales teams the organization may be successful in responding to unique requirements of each market but may lose the benefits of being able to share product development and marketing costs.[16]

§3:2 Identifying and nurturing specialist skills

The boundaries established within the organizational structure by the creation of organizational units should promote the development and maintenance of key specialist skills and expertise. It is widely accepted and understood that managers and employees develop specialist skills as a byproduct of the focus and attention that they give to their assigned tasks and activities. These specialist skills can be an important asset for the organization and often become one of the organization's core competencies that can be leveraged to achieve a competitive advantage. The type and breadth of skills that may be developed within an organizational unit depends on the purpose and activities of the unit. For example, personnel working in a customer-focus unit come to understand the needs and requirements of their customers and become adept at creating ways to service those needs. In turn, managers and employees of product-focused units become experts on the various steps necessary to develop, product, market and support the products. Finally, the members of function-focused units learn the necessary technical and professional skills and the managers of those units develop experience in recruiting, training, managing and motivating qualified personnel.

Specialist skills may be protected by creating a separate organizational unit, such as a core resource unit for functional skills or a new business unit for product/customer skills, or by allowing a multi-functional team to operate among the formal organizational units using separate policies and procedures different from those normally deployed elsewhere in the organization. A common example of a specialist unit is one that is created and maintained solely for the purpose of developing and marketing a new product. In that situation it may be useful for the development team to be isolated from regular contact with the rest of the organization particularly when the product is new to the market and/or the organization itself. This is the approach that IBM took when it made its new PC division a separate business unit in order to encourage the culture thought to be necessary for the development of the PC to be successful. Protection of "specialist cultures" is necessary when there appears to be a real risk that the persons involved in the activity will be restricted by a dominant organizational culture thus making it difficult for the organization to realize the benefits from the specialization. Another important byproduct of creating a separate business unit in this situation is that it allows that unit to compete more effectively against outside firms that are already more focused on the same markets and customers.

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[16] For further discussion of balancing specialization and coordination, see "Challenges in Designing the Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

Few, if any, organizations have unlimited resources and thus it is generally impractical for organizations to attempt to fully develop internally all of the specialist skills that may be deployed in the course of executing all of the organization's product-market strategies. For example, if the organizational structure is based primarily on the formation and use of product-focused business units it is inevitable that the organization will develop more product-oriented specialty skills and less specialty skills with respect to markets, geographic regions and/or functions. A similar imbalance will occur if the focus of the organizational structure is skewed away from products toward geographic regions or functions. From the perspective of the persons involved in the organizational design process, the challenge is to select the organizational structure that is best suited to developing and preserving the specialist skills that are most important to the overall organizational strategy.

When an organizational unit is established for the primary purpose of developing and maintaining specialist skills appropriate adjustments should be made to the responsibilities and accountabilities of the unit, and relevant lateral processes, to permit the unit to attain the benefits of a specialist culture. For example, organizational units or teams focusing on specialist skills should be assigned specific responsibilities related to the development and maintenance of such skills and the appropriate performance measures should be created to evaluate success or failure of the efforts of the leaders of the units or teams. In addition, the specialist unit or team should be granted more autonomy and freedom from the need to reach consensus with other organizational units that might be focusing on their own goals that might conflict with the mission of the specialist unit or team and impede its progress. Finally, rulemaking and oversight from the parent unit should be limited to a few essential processes such as customer relation management and supply-chain management.

§3:3 Identifying coordination needs and selecting coordination strategies

While the decision to establish multiple organizational units is generally driven by legitimate strategic purposes it also creates coordination issues that must be addressed within the organizational structure. Coordination between organizational units occurs in countless areas including trading of goods and services between units, establishing pricing and marketing strategies for common products and services, exchanges of information and ideas among colleagues in different units and reliance on shared services among several units in order to achieve economies of scale. Ideally, the senior executives of each of units will realize the advantages of cooperating with other units when coordination is necessary for the greater interests of the organization and will do so on their own through informal networking without extensive intervention from senior executives of the parent unit or changes to the organizational structure; however, inevitably the organization finds that informal networking will not be sufficient to reach the necessary level of coordination in some cases. Networking may fail for a number of reasons including the lack of incentives for coordination (e.g., a reward systems based solely on unit profitability with no credit for collaboration with other units that might adversely impact the profitability of the unit), rivalries between the senior executives of different units, a culture that encourages units to keep to themselves and not share information or ideas with others outside of the unit or simply because units do not understand or appreciate the activities of other units and how collaboration might help all parties. In any event, if the required coordination between units is not likely to occur smoothly and efficiently if left solely to networking between the involved units then some form of formal intervention is necessary.

In some cases the apparent shortcomings of networking can be resolved by relatively simple actions such as making sure that the organizational structure includes a clear definition of how the units are supposed to relate to one another. For example, in order for networking to be effective in managing coordination between functional units such as research and development and business units the organizational structure must spell out how they are expected to allocate responsibilities between each other when coordination is necessary. Similar guidelines need to be created with respect to the relationships between product- and market-focused business units. Another situation where coordination problems are likely to arise is when it is difficult to achieve a fair allocation of benefits and costs between organizational units. This often occurs when units are expected to buy and sell goods and services between one another without the possibility of turning to third parties as alternative trading partners. One response to this case might be to establish a transfer pricing system administered by an independent group, such as the finance department, that can gather market information and administer a transfer pricing scheme that is perceived as fair and balanced by each of the involved units. If several country-focused business units have been established and uniform pricing across borders is required a senior marketing manager from the parent unit may need to be appointed to oversee the efforts of the senior executives of the units to settle on a price and adjudicate any issues that may arise within the group. Some of the other problems of relying on networking might be resolved by disseminating information about the activities of the various units so that their roles are better understood throughout the organization or by transferring individuals to eliminate personality issues that may be impairing coordination. Even if networking is effective formal action by the parent unit may be necessary in order to enhance efficiency. For example, while organizational units may willingly share information regarding best practices through networking the parent unit will need to assert its authority in order to establish and enforce uniform technical standards throughout the organization.

More complex coordination strategies may be warranted when it is necessary for otherwise autonomous business units to work together on developing, promoting and executing customer solutions that should include elements from several units. For example, primary responsibility for customer relations might be vested in a separate sales/distribution unit and product-focused units would generally be expected to offer their products and services through the sales/distribution unit rather than directly to customers. This arrangement has the effect of forcing the product-focused units to be more open to the ideas and requirements of the sales/distribution unit. Concerns in the sales/distribution unit about whether the product-focused units would be cooperate might be alleviated by allowing the sales/distribution unit to carry and recommend third party products if necessary to achieve the goal of optimal customer satisfaction that has been established for the sale/distribution unit. Allowing for this type of flexibility and competition will place even greater pressure on the product-focused units to collaborate with the sales/distribution unit. A softer technique for increasing collaboration between customer- and product-focused units is to establish a formal planning process for each major customer that will involve representatives of each effected management unit in the establishment of performance goals and strategies for that customer. This provides an opportunity for each unit to express their ideas and concerns and also creates a common framework that can be referenced if specific collaboration issues arise from time-to-time.

In some cases it becomes clear that the only way to ensure coordination of the various activities necessary to achieve a desired outcome is to locate all those activities within the same organizational unit (i.e., a separate business unit). It is self-evident that it is much easier to coordinate activities within, as opposed to across, organizational units. First of all, a senior executive of a self-contained organizational unit overseeing all activities relating to the goals and responsibilities of the unit should be in the best position to determine the most-efficient balancing of resources. For example, the activities of the different functions of a customer-focused business unit such as research, manufacturing and marketing can be aligned in a way that is best suited to the requirements of the customers being served by the unit. Similarly, the activities of various departments in a manufacturing unit such as assembly, engineering and quality control can be organized so as to create a more cost-effective functional output. The same logic applies to a product-focused business unit with respect to coordination of activities necessary to execute the product strategy in several different markets. The senior executive of a self-contained business unit is also generally in a much better position to illicit cooperation and coordination among the functions included within the unit. In general, the senior executive will have the knowledge, perspective and skills to see how the functional activities interrelate and create an equitable division of benefits within the unit that provides an incentive for all of the sub-units. In this way individual sub-units can be prevented from simply acting in their own self-interest without regard to the overall goals of the unit. In addition, since the senior executive is exclusively focused on the performance of the entire unit he or she is able to devote sufficient attention to mediating inter-unit conflicts, educating each sub-unit about how their actions impact the entire unit and ultimately monitoring and enforcing his or her decisions. Also, assuming that the senior executive acts fairly and is considerate of the views of all sub-units before making a final decision on an issue his or her authority is more likely to be respected as legitimate as opposed to illegitimate interference in the conduct of functional activities. Finally, morale among personnel in the unit should be higher when there is a feeling that they are being allowed to control their own destination as opposed to merely executing order issued from an unseen management in a distant parent unit.

It is not always necessary to move all the activities in need of coordination into a separate organizational unit. For example, if existing product-focus organizational units are not collaborating effectively to provide the requisite range of products to customers the organization may launch a new customer-focused unit that offers integrated solutions to customers, sometimes including products from outside the organization, and assumes responsibility for coordinating necessary activities of the various product-focused units.

It is also not necessary for a self-contained unit to be a permanent part of the organizational structure. A good example of this type of case is the new product development process which requires intense communication and coordination among research and development, manufacturing and marketing. Rather than create a permanent product-focused business unit for the yet to be launched new product all of the activities and resources associated with new product development may be placed into a temporary unit for the period necessary to complete development and launch of the product. Once that process has been completed the resources may be sent back to other functional units and responsibility for management of the new product turned over to one of the pre-existing product-focused business units.

As noted above, achieving the efficiencies of coordination sometimes requires difficult tradeoffs with the potential benefits of specialization and vice versa. For example, while their may be substantial economies of scale in coordinating purchasing or manufacturing activities for the entire organization this strategy may make it more difficult to develop and market specialized products for specific markets or countries. On the other hand, if the organizational structure focuses more heavily on specialization by creating country-specific units to address local issues and problems the organization may have problem with coordinating certain functional activities, such as research and development, which are naturally more efficient when resources and investment are centralized.

§3:4 Creating sufficient autonomy to nurture core competencies

In some cases it may be necessary and advisable to specifically create a separate organizational unit in order to ensure that the unit and its personnel have sufficient autonomy within the organization to create and contribute a unique competitive advantage that will benefit all of the business units in the organization. Autonomy concerns may arise when there is a risk that the processes and procedures used in other parts of the organization, as well as the traditional organizational culture, will have an adverse impact on the performance of the specific unit. One example of this phenomenon that is often cited is the need for “bricks and mortar” organizations to spin off new highly innovative ventures into completely separate business units so that they can create their own business culture and operate under different rules, reward systems and personnel policies. It is generally believed that personnel with the specialist skills necessary for success in certain technology-based businesses cannot be recruited and retained unless the organization is willing to adopt policies that would not be appropriate in other parts of the organization. The only way to accomplish this is to establish an autonomous management unit. It may also be necessary to create autonomous business units when failure to do so might lead to confusion among customers. For example, it may be imprudent for the same market-focused unit to attempt to simultaneously market low cost and luxury products. Finally, if a decision has been made to invest in the development of a disruptive technology that may ultimately make existing technologies or products of the organization obsolete it may be wise to house the development work in an autonomous unit to avoid attempts by entrenched managers to undermine the development of the new technology.

An autonomous unit may also be appropriate in situations where certain products and services have needs that are not being served by the business unit in which they are currently placed or by the strategies applied by other organizational units. For example, if success for particular products is dependent on different success factors and/or specialist skills and culture than it may be appropriate to place the activities related to those products in a separate autonomous business unit. Also, branding strategies that have historically been successful for the existing line of products may not be working with new product categories and it may be appropriate to move the new products into a separate business unit with its own functional resources for marketing and branding. In addition, new product categories may not be getting the resources and attention that they deserve from managers in geographic regions and it may be necessary to create a product-focused overlay unit to coordinate marketing and sales across country borders.

§3:5 Aligning authority with relevant knowledge and competence

When designing an organizational structure consideration should be given to the appropriate number of hierarchical levels. It is now generally agreed that organizations should attempt to minimize the number of hierarchical levels—flatter organizations—and decentralize authority and responsibility to operating units at lower levels if at all possible.[17] Put another way, an effort should be made to delegate responsibilities for necessary organizational responsibilities to those persons and groups that have the best knowledge and competence with respect to the actions that need to be taken. This often means that decisions previously retained at the parent level should be delegated to lower levels of the organization where the appropriate specialist units have been created. In order to ensure that effective delegation is occurring all of the major responsibilities that have been retained by the parent unit should be carefully evaluated to determine whether retention is based on an advantage with respect to knowledge and competence or is otherwise necessary in order to execute a strong and defined parenting proposition. If retention of responsibility at the parent level cannot be justified for either of these reasons, consideration should be given to modifying the organizational structure to delegate the responsibilities downward to the person or group that is best able to collect and apply the necessary expertise and other resources in a cost-effective manner and eliminate positions within the parent unit that create little or no additional value.

§3:6 Achieving control and commitment

As the organization grows and becomes more diverse concerns will increase about how the various organizational units can be controlled and motivated. In order to address this problem each organizational unit must be made accountable to specific external or internal customers in order to create natural pressures and incentives for the unit to make corrections as necessary when performance issues arise. For organizational units formed to interact directly with external customers accountability is achieved through bottom-line performance goals such as revenues, profitability, market share and objective

[17] For discussion of tall and flat organizational structures, see "Challenges in Designing the Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

measures of customer satisfaction, which makes it easier and less expensive to monitor and control those types of units from afar. In addition, it is relatively easy to establish rewards and incentives based on these performance goals that can be used to motivate the organizational units. Achieving accountability is more challenging for organizational units that are limited to providing functional services strictly within the organization to its business units; however, the general practice is to focus on containment of costs, efficiency, the scope and quality of services and customer satisfaction.

One of the key elements for effectively controlling the activities of organizational units while simultaneously building a high level of commitment among managers and employees is establishing fair and objective measures of performance. The performance measures for a particular organizational unit, and the associated rewards and penalties, must be closely aligned with the specific responsibilities that have been assigned to the unit. It is not fair to hold senior executives and their units accountable for performance measures that are heavily influenced by factors outside of their control, such as the activities of other units, and it can be expected that the level of motivation and commitment will suffer significantly in that situation. If possible, the performance measures should be few in number and should all be objectively measurable, outcome-oriented and easy and economical to collect, monitor and interpret. The temptation to delve into too much detail should be avoided and performance measures should focus instead on those activities and issues that are deemed critical for the performance of the unit and evaluating its managers. Profitability is generally the measure of choice for business units and works well provided that all potential accounting issues are sorted out in advance. Moreover, profitability can be readily compared to the performance of competitors and other business units within the organization. Finally, performance measures should be clear. Clear performance measures make it easier for managers and employees to focus on what needs to be done. If the standards are complicated, imprecise or subjective there will be confusion about what is expected and skepticism about the fairness of the performance review.

§3:7 Facilitating innovation and adaptation

While an organizational structure should be built for success in the then-current environment it is important to incorporate some degree of flexibility that will allow the organization to adapt easily to future changes in the environment. A number of events may trigger the need to change the organizational structure including evolution of an existing strategy or development of a new strategy, environmental changes, development of new skills and attitudes among managers and employees and the need to encourage and accommodate strategic innovation. Impediments to making necessary changes in the organizational structure include establishment of power bases that become resistant to change, use of too many coordination mechanisms and interdependencies which make it difficult to make one necessary change without have to undertake a re-design of the entire organization, and specifying the activities (as opposed to the broader responsibilities) of organizational units too tightly so that they are dissuaded from innovation or change. Innovation in the future may also be more difficult if plans have not been made in advance by creating units and other mechanisms that would specifically focus on development of new strategies and work processes that could not be created within the other organizational units.

Chapter 4
Creating and Selecting Structural Design Concepts

§4:1 Introduction

All of the research and analysis undertaken by the persons involved in designing the organizational structure ultimately leads to the crucial step of actually generating viable proposals for designing the structure of the organization in a manner that is suited to pursuit of the chosen organizational strategy and then testing those proposals to determine which one should be selected for implementation. Selection of a particular organizational structure is a multi-step process that begins with identifying and describing certain key criteria for the organizational structure and continues with the development and testing of several alternative design concepts. The last step is implementation, which begins with communicating the outline of the chosen structure to key participants and engaging them in development of the relevant operational details.[18]

§4:2 Design criteria

Before new ideas for the organizational structure can be generated the essential design criteria that must be satisfied in order for the structure to be effective in supporting the organizational strategy must be identified and described. For example, the persons involved in the design process must focus on the sources of competitive advantage for each of the products and services of the organization so that the organizational units can be set up in a way that is consistent with those advantages. In addition, the designers need to understand the proposed new strategic initiatives of the organization since these generally require material re-alignment of existing organizational units as well as the creation of new units with a specific focus on products and/or markets that are not currently part of the organization’s portfolio. Information about the sources of competitive advantage and new strategic initiatives should be used to develop some initial guidelines that will need to be followed in designing the organizational structure. It is also important to incorporate parenting propositions and information about the skills and experiences of the organization’s current human resources and the availability of relevant personnel outside of the organization.

§4:3 --Sources of competitive advantage

One of the primary goals of any organizational structure is to lay the foundation for exploiting the core competencies of the organization in a way that achieves and maintains a competitive advantage. Accordingly, the design process should usually begin with the identification and description of the sources of competitive advantage for the each product or service offered by the organization. It is not necessary that the organization currently enjoy a particular competitive advantage. At this point the goal is to understand

[18] M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002), 296-327.

what would need to be done in order for a competitive advantage to be seized through the design and operation of the organizational structure.

There is obviously no single formula for competitive advantage and the answer will depend on the particular product or service. Taking the case of a low-cost food product that is to be marketed primarily to children as an illustration, it will be important to target a large potential market and strive to achieve a significant market share in order to achieve efficiencies of scale given that consumer products typically require large expenditures for product development, distribution and marketing. In addition, particularly when the product is to be marketed primarily to children, it must be innovative and manufactured and packaged in a manner that reflects high quality standards. Finally, since consumer products for children must usually be competitively priced there will be significant pressure to minimize overhead and other non-essential costs. For example, strategies must be considered to manage transportation costs which can be significant given that the packaging of the products—bags that contain a lot of air—make them prohibitively expensive to transport over long distances.

§4:4 --New strategic initiatives

Organizational structure should follow strategy and this means that the persons involved in the design process must understand and incorporate the details of any major new initiatives the organization wishes to launch to advance its strategy with respect to its current or projected products and services. Once again taking the case of low-cost food products it may be that the organization is looking to expand into new geographic markets through both internal growth and acquisition and also to create new markets by launching private-label brands. Another possibility would be to try and capitalize on the organization's knowledge of the technology associated with low-cost food products by developing a new line of products that would be marketed to a different demographic group such as young adults.

§4:5 --Identifying fundamental guidelines for organizational structure

Information about the sources of competitive advantage and the organization's proposed new strategic initiatives should be used to identify certain fundamental guidelines that should be considered when decisions are being made about the new organizational structure. Again using the example of the organization involved with marketing low-cost food products to children, several guidelines might emerge:

- Given the importance of economies of scale, markets should be broadly defined unless there are very clear reasons for differentiation. Using geography as an example it is probably best to focus on all of Europe or Latin America as opposed to breaking things down into a number of separate countries with smaller markets.
- The pursuit of the competitive advantages of product quality and innovation dictate that business units should be product-focused as opposed to grounded in geography or functions. Product-focused business units tend to be stronger in developing and exploiting specialist skills in product development and quality controls. A related

conclusion is that product development activities should probably be centralized in order to ensure adequate focus on quality, innovation and speed.

- Control of potentially high transportation costs probably requires the deployment of a network of local factories.
- The constraints on pricing, coupled with the large development and distribution costs, means that costs should be managed through centralization and standardization whenever possible.

It is important to note that these guidelines do not necessarily address all of the decisions that will need to be made before the proposal for a new organizational structure is finalized. For example, if a number of local factories are used it will be necessary to establish the reporting channels for the managers of the factories and decide whether they should report to a manager in the manufacturing function, a country manager or to the manager of the products that are being manufactured. Also, if the organization has multiple product categories the designer will certainly need to develop additional criteria based on different sources of competitive advantage and strategic initiatives. This might mean that country managers will need to be given a stronger role with respect to other products because there is a need for more differentiation and localization in order for those products to be successful. A stronger role for country managers may also be necessary in order for the organization to pursue its new strategic initiatives with respect to expanding into new geographic markets.

§4:6 --Parenting propositions

The parenting propositions associated with the organizational strategy must be taken into account in designing the organizational structure. For example, if the strength of the parent unit lies in its product development skills and/or low-cost manufacturing expertise then the organizational structure should probably assume that the product development and manufacturing functions will be centralized except in those cases where there is a clear need for a more autonomous group or unit. Also, if the parent unit has developed a well-recognized and reputable brand the structure should be organized in a way that best leverages the brand to the benefit of the specific products.

§4:7 --People-related factors

People-related factors and issues should always be taken into account in creating the new organizational structure and, in fact, one of the main reasons for undertaking a change in the organizational structure is that the current structure may not capitalize on the skills and experiences of certain managers or key employees. A list should be compiled of the executives and senior managers who will have prominent positions in the new organizational structure as well as other managers and key employees that have demonstrated that they might have relevant skills and experiences that should be carefully deployed when finalizing the structure. An attempt should also be made to identify any constraints on the types of personnel who might be recruited to provide skills not currently available within the organization.

The information described above should be used to generate people-related guidelines to add to those already developed in the previous steps. For example, if senior managers have been involved with a particular industry and/or product category for most of their careers they may not be able to understand and accept different rules of the game that might apply to the development and commercialization of new products. In that case the organizational structure will likely need to provide for creation of an autonomous business unit focusing on the new products in order to allow the necessary specialist culture to develop and flourish without interference from the dominating culture of the traditional part of the business. Also, if a manager or key employee outside of the senior management team has relevant experience in an area of interest an attempt should be made to create a prominent role for that person to allow him or her to make the strongest contribution. Finally, if the CEO is most comfortable with managing as a team then the designer should attempt to limit the number of managers that report directly to the CEO in order to keep the management team from becoming too large.

§4:8 Generating and testing alternative design concepts

Once the design criteria have been identified and listed the next step is to generate two or more alternative concepts for the design of a new organizational structure that can then be tested. While a design concept is not intended to be a complete blueprint for the organizational structure, it should identify the proposed organizational units (e.g., business, overlay and shared resource units) and reporting channels and include a brief description of the anticipated roles of each of the organizational units (i.e., responsibilities, accountabilities and vertical and lateral relationships). One way to go about this process is to go through the following steps:

- Define responsibility groupings, which are clusters of responsibilities and related organizational roles that will require focused attention from management.
- Choose one dimension of responsibility grouping to serve as the structural backbone, or primary reporting structure, and then fit the other groupings around it.
- Create several different structural options based on the same structural backbone.
- Choose another dimension of responsibility grouping to serve as the structural backbone, fit the other groupings around it and then create several additional structural options.
- Review and test the various options and select the one that best fits the applicable design criteria.

At this point the designer should not attempt to describe how lateral processes should work nor should the designer identify the personnel to be deployed in specific jobs or specify performance targets or incentive programs. These elements will be incorporated once a final decision has been made on the new organizational structure.

§4:9 --Define responsibility groupings

The first step in generating a design concept is to define responsibility groupings, which calls for identifying the appropriate criterion for breaking up all of the tasks and activities of the organization into sub-tasks or sub-activities. Responsibility groupings may be based around a variety of dimensions including functions, geographic market segments, processes (e.g., budgeting or new product development), products, channels (e.g., large retailers), or parenting propositions. The initial classification of responsibility groupings will often reference two or more dimensions. For example, there may be several country-based sales forces handling different products and it may be feasible to break them out by function (e.g., sales), market segments (e.g., countries) or even products. Similarly, product marketing teams dispersed over several countries can also be broken out into functions, markets or products. Multiple geographic locations for certain function activities such as research and development are less confusing since it is generally clear that they should be aggregated into a function-based responsibility grouping.

Obviously the biggest challenge at this point is just how far to break down collections of operating responsibilities. At the beginning too much disaggregation should be avoided until there is a demonstrated need in order to satisfy a specific design principle. For example, the responsibility grouping for manufacturing might include several factories. While it possible to break each factory down into several different operating lines this probably makes little sense since each line in a factory will ultimately report to a single factory manager. Accordingly, the factory is probably the appropriate organizational unit to consider for design purposes. The need for disaggregation may become more apparent as the design process evolves. For example, a small group within the larger sales responsibility group force might be split off to form an autonomous sub-group to specifically focus on new products considered important to the strategic initiatives of the organization. Specific design criteria may also impact the degree of disaggregation. For example, if the preference is to define markets broadly, as is the case with the illustration of the low-cost food products for children described above, then the designer should avoid groupings broken down into smaller market segments.

The identification of responsibility groupings should always take into account the specific design criteria. For example, if low-cost manufacturing skill is one of the parenting propositions, and thus one of the key corporate and operating strategies for the organization, then there probably should be a manufacturing responsibility grouping overseeing the factory group at either the parent level or as a separate core resource unit. Responsibility groups should also be created for each key strategic initiative such as new product development, new geographic regions and acquisitions/divestitures. In addition, if not otherwise included in the list based on the other factors the designer should add groupings for all current functional units such as finance, human resources, logistics, and information technology. Given that they are basic elements of any organization and that they already exist within the organization it can presumed that they should be included in the new organizational structure in some form. Finally, other areas and activities that will clearly need attention should be listed as responsibility groups even though there are no current personnel and/or resources invested in those areas.

At this stage of the process it is not essential to include precise definitions of the scope of each responsibility group. For example, it is not necessary to create a precise list of which activities might fall within “product development” as opposed to “marketing” at this time. Similarly it is not necessary to identify the specific countries of interest within a larger geographical region that has been named as a responsibility group. It is also important to remember that responsibility groups do not necessarily become business units in the final organizational structure. For example, depending on the particular design that is adopted country-focused activities might be addressed within a business unit, an overlay unit or through a more informal coordination mechanism.

§4:10 --Selection of primary reporting line

The next step in generating a design concept is selecting a primary reporting line (i.e., the principal dimension or axis of the organizational structure). In most cases the options are focusing on one of four dimensions—functions, products, geographic markets or customers.[19] When making the decision, the two main factors are generally the current organizational structure, which often has significant advantages that should not be ignored and changed without good reason, and the need to give sufficient attention to important new strategic initiatives that may not receive adequate support in the current structure. For example, the organization may begin the design process on the assumption that countries would continue to be the primary dimension as they had been in the past. However, the organization wanted to focus on development of new products it could create an overlay unit to coordinate across the various country-focused business units rather than changing the primary reporting line from countries to products. Also, if geographical expansion was a strategic initiative this could be accomplished by initially making the new region a sub-business unit within the country with the closest physical proximity and cultural ties to the new region (e.g., a German business unit might oversee expansion into Eastern Europe).

§4:11 --Create design alternatives

Once the primary reporting line has been selected it is time to generate several different design concepts. This stage of the design process is the best opportunity for the persons involved in the process to be creative and bold about how the organization should be structured since the goal is to view the organization, its stakeholders and the environment in which the organization operates from the highest level without getting bogged down in the details that often sidetrack the re-design process. Usually the best and easiest way to create a new potential design concept is to simply modify the proposed roles of one or more of the existing organizational units. For example, if the current organizational structure includes product-focused business units and an overlay unit for a particular foreign geographic market a natural alternative to consider would be a new structure in which the geographic overlay unit was converted into a business unit with a corresponding increase in autonomy and bottom line accountability that would impact the activities of the product-focused business units. Another example of a relatively easy adjustment to an existing organizational structure is to change the designation of a shared service unit to a core resource unit if the services were deemed to be an essential core

[19] For further discussion, see "Basic Models of Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

competitive advantage for the organization as a whole. Presumably the change in designation will be more than a simple revision of the structural template and a signal a decision to channel more financial resources to the unit and alter the way in which the unit interacts with other organizational units.

New design concepts should obviously incorporate key strategic initiatives. For example, if an organization structured along country lines has decided to engage in new product development activities the designer should lay out several different structural alternatives for including these activities alongside current operations. One possibility would be creation of a product-focused overlay unit with its own dedicated management team and self-contained functional resources that would be responsible for all of the activities necessary for development and commercialization of the new products. This approach may be used when it is believed that a separate business unit is needed to establish and maintain accountability for the activities related to, and the success of, new product categories. Another alternative would be to create a project unit that would remain in place for a finite period of time and focus exclusively on developing support for the new product development effort within the existing business units. In order to maximize the chances for success for the project unit it would need to be fully staffed with managers and other personnel from all the core functions involved in the product development process. A third, and fairly radical, alternative would be to create new business units for the new products that would sit next to existing country-focused business units. There is a fair level of risk in such an approach in light of the impact that this option might have on the authority and resources of the country units. If such a design were selected the new product business units would be responsible for product development, manufacturing and brand marketing and the country unit support would be limited to operating activities such as sales.

§4:12 --Create design alternatives using different primary reporting line

It is important, and challenging, to also create one or more alternative design concepts based on a reporting line that is different than the primary one originally selected earlier in the design process. In light of the common concerns about making sure that sufficient attention is paid to products, particularly new products, at least one product-based design concept should be included in the pool of possible options. In such a design, the products would become the business units and the other responsibility groups would either report to one of the product business units or to the parent unit or become some other form of unit (e.g., overlay, project, shared resource, core resource, etc.). For example, in order to penetrate a new geographic region the organizational structure might include a shared resource sales unit for that region that would be responsible for marketing and sales of the products development by the product business units; however, more modest proposals would attack the geographic strategy through overlay or project units. Another idea would be to make the manufacturing function a core resource unit that would further the parenting proposition related to that activity and oversee the activities of the factories. New product development might be given added attention by placing those activities into a core resource unit.

§4:13 --Review and testing of design alternatives

Once several design concepts have been created several of them should be selected for initial testing. Obviously it is not possible to actually reconfigure existing work activities in order to run a real time test of a design concept and the process of testing actually entails a rigorous assessment of whether or not the proposed structure strikes the appropriate balance between specialization and coordination, guarantees sufficient autonomy for specific human and other resources to create and contribute unique competitive advantages, locates authority for decision at the appropriate level of the organizational hierarchy and achieves adequate levels of control and commitment. The organizational structure should also permit pursuit and attainment of market advantage, leverage value-added resources and knowledge of the parent unit, motivate and excite the organization's human resources and overcome applicable constraints in the organization's chosen environment.

The first design concept to be tested should actually be the current one used by the organization. This is a good way to focus on current problems and the persons involved in the design process also should have the benefit of greater knowledge about the actual activities of the various organizational units and the way in which they relate to one another. It is useful to have at least one simple alternative ready for testing as well as several more complex options. Too many alternatives makes the process unwieldy; however, the information collected during the initial round of testing can and should be used to modify the first set of options and generate new ideas based on insights that had not occurred to the designers earlier in the process. In any event, the end product of the testing process is not only to determine whether a particular design concept will be workable but also to add just enough structure and process to create a solid outline that can be understood by and explained to the relevant participants.

§4:14 Preparation for implementation of a new design concept

Once a design concept has survived the testing process and has been approved for possible implementation by the senior executives of the organization the final step is to assign the personnel who will be responsible for the main jobs within the new organizational structure and determine whether or not the concept is sufficiently clear and robust to allow the managers of the organizational units to begin their activities without further guidance from the designers. At this point the concept must be carefully reviewed to ensure that the role of each organizational unit has been adequately defined and that processes have been established with respect to relations between units. It is not necessary to spend excessive time on detailed rules and processes and, in fact, those issues should be left to the managers at the unit level who are in a better position to determine how much rigor and formality is required for good management. However, one issue that needs to be resolved is the appropriate form of lateral relationship between organizational units that will need to interact with one another within the new organizational structure. Lateral relationships generally fall into one of the following categories: mutual self-interest; pressure group/principal; service provider/client; resource owner/user; and team.[20]

§4:15 --Mutual self-interest relationship

A mutual self-interest relationship between organizational units is similar to a relationship between two independent parties bargaining with one another in the marketplace. Organizational units in a mutual self-interest relationship are free to collaborate if it suits their interests or simply choose not to work together and pursue other alternatives for the particular products and services offered by the other unit. The best, and most common, illustration in this area is a potential supplier-customer relationship between organizational units. For example, a product-focused business unit may be given the opportunity to purchase services from a shared services unit formed to provide an easy marketplace for such services for all of the business units in the organization. If the relationship between the two units has been declared to be one of mutual self-interest then the business unit, as a potential customer, is free to refuse to do business with the shared services unit, as a possible supplier, if the business unit believes that it can find better terms and conditions from a third party. In turn, if the supplier unit is not able to achieve the necessary level of profitability on a proposed sale to the customer unit the supplier unit can veto the transaction and offer the service to a third party on better terms and conditions.

§4:16 --Pressure group-principal relationship

A pressure group-principal relationship exists when one organizational unit (the "principal") has the power and authority to make the final decision on an issue but one or more other organizational units (the "pressure group") are authorized and expected to attempt to exert their influence on the principal before the decision is made. Even though its authority is established in advance, it is expected that the principal will give a fair hearing to the pressure group and attempt to take the legitimate views and concerns of the pressure group into account. In return, it is also expected that the pressure group will accept and support the decision that is finally announced by the principal. A pressure group-principal relationship is often found in overlay and project units, each of which are described in detail below.

§4:17 --Service provider-client relationship

A service provider-client relationship exists when a service-focused organizational unit, such as shared services unit (the "service provider") is required to offer services to a business unit (the "client") and the client is required to contract with the service provider for such services provided that the terms and conditions of the relationship fulfill certain overriding rules and guidelines established and enforced by the parent unit. While it is expected that the service provider and client will collaborate and work together, both parties must do their best to treat the other fairly. For example, the service provider

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[20] M. Goold and A. Campbell, Designing Effective Organizations: How to Create Structured Networks (San Francisco: Jossey-Bass—A Wiley Company, 2002), 151-153.

should deal with the client in the same way as other customers, including any third parties, and seek to be competitive in key areas such as quality, responsiveness and cost. In turn, the client owes it to the service provider to be clear and concise when stating its requirements so that the service provider can do its best to meet those requirements and negotiate a contract that makes sense for both parties and that is easily benchmarked against third party alternatives.

While the guidelines for the organizational structure may require that the service provider and client collaborate with one another it is also common to allow one or both of the parties to refuse to deal with the other, turning the relationship into one of mutual self-interest, if they cannot reach agreement on contract terms. A more reasonable middle ground imposes objective conditions on the right of one of the parties not to contract with the other. For example, the right of a client to use a third party rather than the service provider may be conditioned on evidence that a third party is offering a product or service at prices that are substantially lower than those that can be offered by the service provider. In addition, the client should be required to provide some advance notice to the service provider to allow the service provider to make a counter-offer or modify its business plan and budget to take into account the projected loss of business from the client and acquire and use the resources necessary to satisfy the client's requests.

§4:18 --Resource owner-user relationship

A resource owner-user relationship has many of the same characteristics of a service provider-client relationship; however, it also differs significantly in that the resource owner, typically a core resource unit, has an important additional role to make sure that it develops and nurtures the resource for the benefit of the entire organization at the same time that it attempts to address the immediate needs of potential users. An example of areas where this sort of challenge exists is when the resource in question is research and development expertise. In that situation the senior executives of the resource unit must be concerned about strengthening the depth and quality of the core resource and making sure that personnel within the core resource unit become more productive and continue to mature and learn through training and new projects. In order to achieve these goals priority may be given to user requests that are best suited to the long-term learning and development of the core resource and the unit may not be able to fill all of the other types of orders that may be received from other units in the organization. It is important for users to understand the priorities of the resource owner and expect that they may need to look elsewhere to have their requirements satisfied for various projects. While some organizations do not permit users to work with outsiders the better practice is to recognize that there may be special circumstances when resource owners and users must be freed from any obligation to contract with one another.

§4:19 --Teams

Teams are a well-known alternative for creating and managing lateral relationships within an organizational structure and much has been written about team relationships and how teams should be organized, operated and used within the organization.[21] In general, a successful team relationship requires that all of the organizational units involved collaborate with one another in order to achieve the goals and objectives established by the upper level organizational unit in which each of the team members resides. Team building and decision making can be a costly and time-consuming process and it is essential for a clear team leader to emerge or be appointed in order to ensure that conflicts are resolves and final decisions are reached in a timely fashion. Moreover, the effectiveness of the team process depends on the willingness of all team members to support the decisions made by the team and carry out the activities under their areas of responsibility that are necessary for the decisions to be executed. For example, the senior executives of each function within a business unit must be put aside their specific function-focused goals and work with the executives of other functions to meet the larger needs of the business unit. In addition, the functional executives, used to exercising a good deal of authority within their function, must accede to the higher authority of the senior executive of the business unit.

§4:20 Case study—Structural support for new product development activities

It is impossible to use a single case study to fully illustrate how all of the various issues that must be resolved in designing a new organizational structure should be handled. However, in order to see how the process might work this section considers the situation of an organization that is currently using a function-focused organizational structure to oversee a portfolio of related products that are marketed and sold in several countries around the world through the efforts of country managers that oversee their own local sales groups. The organization has decided that its key new strategic initiative for the upcoming planning period will be the development of new products that can be used to expand the presence of the organization in its country markets and hopefully capitalize on one of its current sources of competitive advantage—the positive brand equity that has been built up in prior years. The issue for the persons overseeing the design process is suggesting the best approach for nesting the new product development activities within the current responsibility groups.

§4:21 --Formation of project teams

First of all, several design concepts should be generated using the processes described above. As noted, it is recommended that consideration should always be given to at least one relatively simple alternative that would create the least amount of disruption to the current structure. In this situation the strategic initiative of new product development might be pursued by having the senior executive of the brand marketing function designate senior brand managers from within the function to act as project leaders for each of the new products that the organization wishes to launch. Project teams could be formed for each new product and each team would include managers from the product development and manufacturing functions as well as from each of the major countries.

[21] For further discussion, see the chapter on “Team Management” in “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

These project teams would be responsible and accountable for parenting the new products through the development and commercialization process and assistance might be provided by establishing a new core resource unit to perform the essential product development activities. Once the product development work is completed the project team would be disbanded and the various country managers would then be responsible for marketing and sales activities of the new products as well as for the products they already were carrying. Hopefully the country managers would devote sufficient attention to the new products in light of their involvement in the project teams during the development phase.

§4:22 --Creation of overlay units

A second possible design concept would create overlay units for each new product. Specifically, small dedicated teams consisting of marketing and product development managers would be created for each new product. They would be given responsibility for sales volume and profits for the new products in each of the countries; however, they would have no direct power or authority over the country managers. In order to achieve their objectives the members of the overlay units would need to rely on their ability to negotiate and persuade the country managers that the success of the new products would also benefit them. Overlay units would receive assistance from the parent unit since the managers of each of the units would report to a newly-created senior management position with responsibility for new products and the holder of that office would sit as a member of the organization’s executive committee to guarantee that adequate attention was given to the development of new products. Once again, support for new product development would also be provided through a core resource unit.

§4:23 --Creation of new business units

The third possible design concept would involve creation of a new business unit for each of the new products and making those units fully responsible for product development, marketing and manufacturing while relying on the country-focused business units to provide support through their sales activities. Among the issues that would need to be addressed would be establishing the reporting channels for the managers of these new business units. Possibilities range from having each of them sit on the executive committee, thus reporting directly to the CEO, having them report to a senior executive in the parent unit responsible for managing new businesses who in turn reported to the CEO, or having them report to the manager of the country considered most likely to give the most attention to sales activities associated with the products developed by the unit. As with the other two concepts, a core resource unit for new product development would be created to assist each of the new business units.

If the design concept includes the creation of new product business units that will still be dependent on the sales activities of country-focused business units the dilemma that must be addressed is making sure that the countries will ultimately give adequate attention to the new products as opposed to maintaining their historical focus on products that have been in their product line for some period of time. One approach might be to establish a formal new product planning process at the highest levels of the organization as part of the creation of the overall budget and strategic plan for the organization. For example, managers of the new product units and each of the countries could be required to present their plans to the CEO and the rest of the executive committee to ensure that there strategies are in alignment and that the countries are planning to provide adequate sales support for the new products. Another idea would be to allocate marketing funds directly to the new product units so that they have their own separate budget that can be used to increase spending on advertising for the products in the various countries. This resource can be a valuable tool when a country manager is unwilling to move marketing funds from other priorities that have already been established in the budget for that country. Finally, the parent unit could mandate the formation and operation and strategy teams for each new product that include the managers of the new product unit, sales and marketing managers from each of the countries, and the manager of the factory that handles the largest portion of the manufacturing for the product. At first, the functional managers from the various countries may be reluctant to the take the effort seriously; however, the opportunity to interact with the product unit managers often turns people around once they gain a better understanding of the new product and how it might fit into the existing product line. In order for these strategy teams to be most effective consideration should be given to locating the new product unit at or near the location of the primary factory in order to create a close working relationship among product development, marketing and manufacturing and allow all parties to understand the underlying business model for the new product. In addition, the parent unit must make it clear that it expects that the activities and objectives of the teams will take priority over all other meetings and that members of the team will take off their country or functional hats when the team starts to deliberate and act as if success of the new product was their main and single objective.

Chapter 5
Integration Strategies

§5:1 Balancing differentiation and integration

Two of the most important issues that must be confronted in designing an organizational structure are differentiation and integration. Differentiation involves identifying and defining the basic functional or activity-focused units of the organization—those groups of people and other resources that must be created in order to perform specific functions or activities on behalf of the organization. Integration refers to manner in which these organizational units interact with one another to coordinate their activities, and often share their resources, in order to generate the outputs that are necessary in order for the organization as a whole to achieve its goals and objectives. The challenge during the design process is achieving the appropriate balance between differentiation and integration. Each time a choice is made to differentiate by creating a separate organizational unit consideration must be given to when the activities of that unit must be integrated with those of other units and how integration will be effectively achieved. Choices regarding differentiation are reflected in the "structure" of the organization while integration is facilitated through the "processes" created within the organization.[22]

§5:2 --Differentiation and structure

References to "structure" in the organizational design process include the decisions about which formal groups should be created in order to hold and utilize related organizational resources.[23] When developing a proposal for the structure of an organization consideration must be given to a number of issues including the specialized job skills needed to carry out the activities of the organization ("specialization"); the number of employees needed for each identified area of specialization ("shape"); the appropriate level of centralization and decentralization of authority within the organization ("distribution of power"); and the actual boundaries and responsibilities of each formal group ("departmentalization"). In addition, the persons involved in the design process must select the number of management levels in the organizational hierarchy and the locus of authority within the hierarchy with respect to decisions about specified activities; define the vertical reporting relationships within each group and the lateral relationships between various groups; and establish the key rules and procedures relating to how work processes are created and implemented. Many of the decisions about organizational structure are typically depicted in some form of "organizational chart".

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[22] For further discussion of differentiation and integration, as well as other issues that must be addressed in designing an organizational structure, see "Challenges in Designing the Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[23] For further discussion of all of the elements of organizational design, including structure, see "Organizational Design" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

In general, organizations elect to build their structure around one or more of the following dimensions: functions, products, geography, products or markets/customers.. Typically one of these dimensions will take the primary role and thus be granted authority over the resources that would otherwise fall within one of the other dimensional categories. For example, if the organization decides that the best way for it to compete and execute its strategies is to create product-focused business units then each of those units will generally have its own resources to carry out the essential functional activities relating to its product line including manufacturing, marketing, human resources, facilities and legal. In that case each unit basically operates as a separate business entity with independent profit-and-loss responsibility although its senior manager will still report to the chief executive officer of the organization. Alternatively the organization may adopt a matrix structure that uses two primary organizational dimensions and creates dual reporting relationships for employees. One illustration is the situation where the organization gives equal recognition and authority to both products and functions. In that case a marketing specialist will simultaneously report to a product manager and to a manager within the marketing function.

Decisions must be made during the design process regarding the number of management levels and the distribution of authority throughout the organization. A distinction is often made between hierarchical ("tall") and flat structures. A traditional hierarchical structure, illustrated by the familiar pyramid, has many layers of managers and authority is concentrated at the top with the chief executive officer. In contrast, a flat organization deploys fewer levels of management and delegates to those managers much broader areas of control and responsibility.[24] Since these managers cannot be expected to directly oversee all of the activities under their control and make all of the necessary decisions authority must be disseminated to a larger number of individuals and teams, a move that creates an urgent need for effective integrating rules and processes.

As if creating the organizational structure was not complicated enough the persons overseeing the design process must be prepared to regularly re-evaluate the structure in light of changes in the organization's external environment and corresponding modifications to the strategy and objectives of the organization. The structure of the modern business organization must be designed to respond to various dynamic trends in the marketplace including growing customer buying power, speed and change. Specifically, as the buying power of customers, particularly global customers, increases the organization must respond by focusing more resources and attention on specific customers or market segments. Also, as the pace of business continues to speed up and change occurs more rapidly the organization must alter its structure to accommodate the need to expand the number of decision makers and move authority closer to the points where the work is performed so that quick decisions can be made in order to reduce response times.

§5:3 --Integration and processes

[24] For further discussion of tall and flat organizational structures, see "Challenges in Designing the Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

Of equal importance to structure in the organizational design area are the processes that are used throughout the organization. Processes are the ways in which the organization is able to marshal the knowledge and skills of its individuals and groups to address problems and opportunities that confront the organization. Processes include business processes (e.g., financial reporting, quality control systems and order fulfillment), as well as processes that relate to communications and other interactions between individuals (i.e., employees and managers) and the organization in order to disseminate information and make decisions (e.g., information systems and performance appraisal). Processes may cut vertically and horizontally through the structure of the organization. Vertical processes are designed to identify and allocate valuable scarce resources such as capital and personnel and are typically business planning and budgeting processes. Horizontal, or lateral, processes are required in order to define and enable the required integration and coordination among the differentiated groups in the organizational structure in order to perform the workflow of the organization.

As an organization grows and its activities become more complex the importance of effective lateral communications and processes increases substantially. As specialist resources are disbursed throughout the organizational structure problems can arise with regard to efficient transfer of knowledge and information about the business and performance may suffer because resources are not immediately available at the point where they are most needed in order for the organization to achieve its overall goals and objectives. In addition, each group within the organizational structure will begin to develop its own agenda and culture thus creating further barriers to cooperation across group boundaries. These issues should be anticipated and the persons involved in the organizational design process should create and support integration mechanisms within the organizational structure. There are a number of structural tools that can be used to promote integration ranging from informal contacts between employees and groups to formal project teams. However, in order for these tools to be effective several other important steps need to be taken[25]:

- Senior management must carefully set the overall direction of the organization by establishing and communicating the organizational mission, strategy and values to all of the employees in each of the groups within the organizational structure. This information provides everyone with a common set of guiding principles that should increase understanding of why communication and collaboration between groups is necessary for the overall good of the organization.
- The operational activities of the organization should be guided through budgets, schedules and performance goals and objectives. This formal planning process allows the persons involved in designing the organizational structure to identify in advance when and where integration issues will arise so that steps can be taken to promote cooperation.

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[25] S.A. Mohrman, "Integrating Roles and Structure in the Lateral Organization", in J.R. Galbraith, E.E. Lawler, III, and Associates, Organizing for the Future: The New Logic for Managing Complex Organizations (San Francisco: Jossey-Bass, 1993), 128.

- Information systems must be established in order to improve communications, and coordinate activities, between different parts of the organization. This will require investment in acquiring and maintaining the right set of information technology tools.
- Career paths and worker training and development programs must be modified in order to build the skills necessary for high performance in a laterally integrated organization. For example, managers should be trained on leading project teams with members from different functional groups and employees should be provided opportunities to learn more about the workflow in other functional areas.
- Reward systems must be adopted that provide incentives for managers and employees to participate in lateral communications and integrative structures. For example, as discussed below, group performance should be included as an element in assessing the personal performance of group members and establishing their compensation.

§5:4 Information and integration

All of the integrative mechanisms discussed in this chapter have as one of the main purposes the facilitation of continuous and effective communication of information among individuals and groups within the organization. Information is necessary for managers and employees to understand how their activities fit within the overall organizational strategy and why it is necessary for them to collaborate across group boundaries. Without information groups will opt for isolation and there will be no incentive for them to listen to the concerns of other groups and provide them with support in the form of sharing of scarce resources. Information is also necessary for effective collaboration. For example, in order for a project team consisting of members from different functional groups to be effective it must have sufficient information about the goals for the team that have been set by senior management in order to create a schedule for team activities.

One way that organizations can encourage communication between employees and formal groups such as departments and divisions is to make the exchange of information easier through investment in new information technology (IT). For example, as an organization grows and employees are dispersed in distant locations, often on different sides of the world, it is important to create global IT systems that permit employees to share databases, reports and other information on a real-time basis. Enterprise management systems can be used to centralize accounting records and information regarding transactions with key business partners including customers, distributors and suppliers. While face-to-face contact is obviously the optimal method for communication organizations can also link departments working on the same issue or problem through teleconferencing and Web-based meetings. In fact, as organizations continue to closely scrutinize expenses there is a growing trend toward relying on technology-based communications strategies as part of an overall effort to reduce travel costs.

While IT is an important tool for organizations of all sizes it should complete displace the personal exchanges of information that have traditionally occurred in face-to-face meetings. This is particularly true for organizations that are growing quickly, bringing on more and more employees and adding new hierarchical levels in their organizational structures. While growth is hopefully a sign of success it also becomes increasingly difficult to maintain the entrepreneurial culture and atmosphere that existed when the business was first launched and everyone worked in the same room. Moreover, the elaborate organizational structure that emerges when the organization grows is accompanied by greater risk of breakdowns in communication. Many organizations respond to these issues by scheduling lengthy meeting and retreats; however, these sessions can be costly and are often seen as unproductive. An alternative should be considered is regularly scheduled short meetings—often no more than 15 minutes—of all the employees at a specific location, regardless of what group they are affiliated with on a day-to-day basis—to interact and communicate on specific topics of immediate concern and value to the business. The format can be customized to the needs of the particular organization and ideas might be gathered from the following examples:

- Each participant can quickly identify his or her one or two main priorities for the day and others can then provide information to assist in accomplishing those priorities or even change their own plans if necessary to facilitate completion of what appear to be the most important projects from an organization-wide perspective. For example, if the procurement department is having trouble with a vendor the CEO or CFO may offer to get involved immediately to ensure that the supply chain is not compromised. If the manufacturing department reports that it is having problems with certain equipment the sales group can quickly contact customers to discuss necessary changes in delivery schedules.
- Senior managers can report on what areas they intend to focus on during the day and thus provide those reporting to them with an idea of what the current priorities might be among the organizational leaders. Interestingly, this process also provides the CEO with an insight into certain attributes of the management and communications styles of the members of the executive team. A CEO may discover that a group head is spending too much time micro-managing the work of his or her subordinates and may need to work with that person to clarify what the proper objectives should be. A tendency of a senior manager to horde information in these meetings may also signal problems that the CEO will need to address before coordination and communications issues surface.
- Salespersons can be required to report all new accounts, or significant new opportunities with existing accounts, so that managers and employees in other departments can mobilize quickly to provide support directly to the customer. The key to this process is using the information provided by the salespersons to quickly reach a consensus on which accounts are most important on that particular day. This allows everyone to shift their priorities and narrow the focus of their activities for the remainder of the day.
- Having employees mention any significant appointments with vendors or customers, or other anticipated absences from the office, allows others who need to speak with these employees to re-arrange their own schedules to avoid conflicts with the appointments or absences. The byproduct is more efficient communication and a reduction in the time lost waiting for someone who is otherwise occupied to respond on a particular project. In many cases employees find that a simple five minute face-

to-face conversation right after the meeting accomplishes more than a string of e-mails and voicemails that extend over the course of an entire day or even longer.

Rather than simply be a recital of “to do” lists, important as that may be, organizations with a larger number of employees may use these meetings as opportunities to disseminate information about the overall performance of the business and the specific activities of particular groups or departments. Senior management may identify particular key performance indicators that can be updated and discussed at regular intervals. This gives all employees a chance to feel move involved with the organization’s overall direction and perhaps offer their own ideas on how performance can be improved. The meeting can also be used as an opportunity to recognize and celebrate different employees for their activities.

In addition to meetings with all employees, the CEO may convene short daily summits with a smaller group consisting of all of the members of the senior management team solely to focus on progress against, and their activities relating to, the organization’s overall strategic business plan. The purpose of these meetings is identify what the senior managers have been doing to achieve specific quarterly and annual goals and objectives and to allow the CEO to evaluate their performance and determine whether there are any significant issues or problems that might be preventing the participants from executing the activities expected of them and their subordinates as part of the strategic plan.

Regardless of how the meeting is structured, time limits should be ruthlessly enforced and meetings should begin and end at the same time each day so that the exercise becomes part of the culture of the organization. The focus should be on communicating, prioritizing and perhaps celebrating organizational performance and the utility should be obvious to all in attendance. These meetings should not become strategy sessions; however, they should be efficient enough to mop up all the nitty-gritty issues that can get in the way of the serious brainstorming and long-term problem solving that should occur when and if a strategy meeting is convened.[26]

§5:5 Integrating mechanisms

While technology has been a useful tool in overcoming communications issues, organizations must also rely on one or more explicit methods or strategies for coordinating the tasks of individual employees and the activities of different departments and divisions. The most basic coordination technique is grounded in the vertical hierarchy of the organizational structure—the establishment of formal reporting channels that require an employee to be responsible to someone higher in their particular hierarchy and which give the “boss” in the relationship the legitimate authority to control the activities of an employee who is reporting to him or her. At the other extreme of the continuum of integration methods is the creation of an entirely separate department tasked with the responsibility, and the authority, to coordinate and integrate the activities of different formal groups within the organizational structure. Between the authority of

[26] Derived from “The Art of the Huddle: How to Run a Prompt, Productive, and Painless Morning Meeting,” in Inc. Magazine (November 2007), 40-43.

the vertical hierarchy and the integrating department are several other short- and long-term solutions including direct contract, establishment of liaison roles, creation of task forces or teams and the establishment of integrating roles.

The most appropriate form of integrating mechanism for an organization changes as time goes by and the size and business activities of the organization expand. The first decision that an organization makes that will eventually trigger the integration issue is when it establishes a formal hierarchy of authority by creating reporting channels between organization roles. At that point the organizational leaders, generally the founders, designate certain organizational roles (e.g., executives, managers and supervisors) and assign them responsibility for coordinating the activities of one or more employees in other related organizational roles. For example, when an organization is first formed the structure, if there is one at all, will be essentially flat and all the founders will collaborate to perform each of the activities that are absolutely necessary in order to get the business up and running and complete development of the initial product or service. However, as the organization grows the structure becomes more formal and differentiation is introduced in the form of one or more departments to focus on essential activities that demand specialized focus. As these departments are formed and staffed one of the founders, or someone new brought in from outside the founding group, will be assigned authority over the organizational roles in the department and the employees hired to fill the positions associated with those roles will report to the new departmental manager. This is the likely scenario once the new product or service is ready to be introduced to potential customers and at that point the organization will create a sales and marketing group, designate an executive or senior manager to lead the group and recruit a team of salespeople who will report to the group leader and follow the leader's instructions. At that point in time it is also likely that the organization will launch other departments to focus on development of additional products, manufacturing and finance and the need to recruit more employees with specialized skills normally leads to the creation of a human resources department.

Once the hierarchy of authority is in place senior management of the organization should regularly review how effective the organizational structure is in facilitating communication and cooperation between different departments and other business units. In many cases the easiest and quickest way to improve the level of coordination between groups and increase integration is to make a simple change in the vertical reporting relationships. Assume, for example, that primary responsibility for decisions about new product development is vested in the manager of the production/engineering department. In that case it is likely that the manager, because of his or her background and department-specific goals, will push for new products with simpler designs in order to reduce production costs. However, the marketing department, which has no authority to override the production/engineering manager in the current hierarchy, may rightly argue that the success of new products will depend on the inclusion of more features and enhancements that may make it difficult to achieve reduction of productions costs in the near-term. If the manager of the production/engineering department is unwilling to take the arguments of the marketing group into account there is likely to be a high level of conflict and antagonism between two important functions within the organization. In order to resolve this problem the organization may change the hierarchy of authority by creating a new organizational role—senior product manager—and changing reporting channels so that the managers of the production/engineering and marketing departments report to the senior product manager. The senior product manager can then act as an impartial collector of information and suggestions from both departments and make decisions about new products that are best for the entire organization as opposed to any specific department.

A change to a vertical reporting relationship like the one described above is designed to resolve potentially dangerous conflicts between departments and other business units that may ultimately delay strategic initiatives and damage the overall performance of the organization. However, adding new layers of management each time a communication and collaboration problem arises will eventually become inefficient and does not fully address the underlying issue—each department is driven by a "silo" mentality that prevents it from appreciating the needs and goals of other departments that are also contributors to the organization's overall performance. It is therefore necessary to look for other solutions to break down the barriers between departments so that the organization is able to execute strategies that require high levels of integration and cooperation from numerous specialty groups. The answer comes in the form of various integrating mechanisms that create and maintain lateral connections within the organizational structure. Lateral connections, sometimes referred to as lateral relations strategies, are generally categorized by reference to the strength of the formality associated with the desired connection between people and groups within the organization. The weakest links are the networks of personal connections that employees form with colleagues in other parts of the organization. More formality is added by creating task forces, teams, integrative roles and matrix-type organizational structures.[27]

As lateral relations strategies become more formal and complex the cost and required attention to the overall design of the organization also increases. For example, organizations must anticipate and fund the additional expense of reconfiguring information systems and relocating employees so that they can effectively participate in task forces and teams. In general, the complexity of the organization's lateral relations strategy is related to the amount of task uncertainly confronting the organization and as task uncertainty increases it is more likely that the organization will need to turn to more formal measures up through the establishment of a matrix organization. Deployment of lateral relations strategies is cumulative in that adding a more complex strategy does not mean that the less complex communications are disbanded. This means that even though managers from two departments serve as members of a permanent team dealing with cross-departmental issues they will also continue to meet informally on a one-to-one basis as they previously did when they relied primarily on direct contact as their lateral relations strategy.[28]

[27] For further discussion of matrix-type organizational structures, see "Basic Models of Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[28] J.R. Galbraith, Organization Design (Reading, Mass.: Addison-Wesley, 1977), 112.

While the focus of the discussion below is how integrative mechanisms can be used to improve the performance and effectiveness of an existing overall organizational structure it should not be forgotten that increased use of lateral connections is an important tool in making wholesale changes in the primary dimensional focus of the structure from functional to product or vice versa. For example, an organization that begins with a functional structure, as is generally the case, can gradually increase the emphasis on product-based considerations by creating and using product task forces, product teams and eventually formal integrators such as product managers and product departments. In turn, product-based structures can be changed through the introduction of functional groups. Of course, corresponding changes will also need to be made to the information and reporting systems of the organization. Taking the case where product-focused lateral relations strategies are added to an original functionally-based structure, the organization should develop new tools to collect and disseminate information regarding the organization's products in addition to its functional activities.

§5:6 --Direct contact and development of interpersonal relationships

One simple method to increase the likelihood of communication and cooperation between persons in different organizational roles and departments is to encourage direct contact between them and the development of interpersonal relationships that can serve as a foundation for discussing and resolving conflicts before they escalate to the point where the work activities of the organization are adversely impacted. A simple example is when the manager of one department becomes aware of a problem that will cause a delay in moving parts or products to the next department. In that situation, rather than referring the potential scheduling problem up the hierarchical structure, which will itself cause delays, the managers of the two departments can meet face-to-face to determine the best way to handle it on their own.

Direct contact is obviously easier when the organization is small and managers and employees from different departments are still working in close proximity to one another. As the organization grows, however, a conscious effort must be made to create opportunities for direct contact including regularly scheduled interdepartmental meetings, retreats, training sessions and social events. Teleconferencing and Web-based conferencing can also be used to get people to actually speak to one another so that they can explain their positions on an issue of common interest and reach a mutually acceptable resolution. Whenever possible the layout of the organization's facilities should be set up so that people and departments that need to work closely are in close proximity in order to encourage more frequent informal contacts and communications. Finally, technology (e.g., an intranet) can be used to foster and support interdepartmental communities of interest in shared topics such as emerging technologies, major customers, regulatory matters or specific industries.

While direct contact clearly has advantages with respect to efficiency and reducing the number of cases in which higher level managers have to become involved, the organization must create the right conditions for ensuring that direct contact results in good decisions. Specifically, the organization must establish a reward system that values cooperative behavior, identify and hire managers with good interpersonal communications skills, establish and maintain organizational norms and value that support the legitimacy of collaboration, and establish clearly visible performance targets for each department which each manager can use as a guide during direct communications. Informal communications can also be improved through personnel practices that include lateral transfers of managers to other departments as part of the management development program so that managers can view problems through the eyes of the other party in the communications and members of each department can gain a better understanding of the relationships and culture that prevail in other departments.

When relying on direct contacts it is also important to acknowledge and anticipate that it will not always achieve the desired level of cooperation and integration since negotiation and agreement between the parties is strictly voluntary. As a result, if the parties cannot solve the conflict on their own the organization must create a legitimate appeals process that will render a final decision that will bind each of the parties and direct their actions with respect to the specific issue or activity. In order for the appeals process to be perceived as legitimate every effort should be made to select a final decision-maker who is perceived as knowledgeable, understanding and unbiased and who is close enough to the issue being debated to easily collect objective information on the problem and place the problem in context with all the other activities of both departments.

§5:7 --Liaison roles

As the organization grows it becomes more and more likely that different departments will have questions about how they should interact with one another and/or that conflicts will arise as the departments work on various pieces of a larger project (e.g., development of a new product). While direct contact between specific persons in each of the departments may be used initially to deal with questions and conflicts the shear volume of issues will ultimately lead to more formal efforts to build positive linkages and communications between the departments. For many organizations, the first step is for each department to designate one or more persons—commonly referred to as liaisons--to devote a significant amount of their time working with designated counterparts in other departments to handle and facilitate communications between managers and others in the departments. For example, it is likely that manufacturing operations may require substantial interaction between the assembly function on the production line and those specialists in the engineering department that have been involved with the development of the specific part or product that is being manufactured. In that case, the engineering department may appoint a person from within the department to serve as a liaison to the assembly function and physically locate that person at or near the production line in order to make sure that communications go smoothly and are quickly and efficiently referred to the right persons within the engineering department. Another example is when the R&D department appoints liaisons to work with the production and marketing departments to ensure that its activities are aligned with other specialty groups involved in the new product development process.

In some cases it may be necessary to strengthen and legitimize the liaison role through formal changes in the organizational structure. For example, consider a major design and production project that requires coordination and sequencing of functional activities along a predictable work flow beginning with design and extending through purchasing, manufacturing and quality control. If the project involves an important new product the organization will need to ensure that it selects the optimal structure to complete the project on a timely basis and within the original budget guidelines. In some cases the organization may aggregate the various product design activities into one unit and the place purchasing, manufacturing and quality control into another operations unit. While this makes sense in terms of creating self-contained groups there is still a need for coordination between design and operations and this need can be filled through a third unit—program management—that is responsible for collection of information and, most importantly, decisions regarding changes to schedules and budgets. Each of three units were subject to oversight be the general manager and were placed on the same level on the organizational hierarchy. As a result, the general manager must give scheduling and budget considerations the same weight accorded to the design and technical aspects of the project and this should increase the chances that the project will not be delayed or encounter cost overruns.[29]

Liaison relationships do not guarantee that conflicts will be resolved between the departments as opposed to someone higher in the organizational structure; however, it is hoped that the liaisons can build relationships with persons in other departments and establish a foundation upon which the departments can begin to understand one another and their specific goals and problems. The liaison role is not an easy one and those selected should expect to invest a significant amount of time on meeting with their counterparts in other departments, communicating requests made by members of their department and disseminating information received during the course of carrying out the liaison responsibilities. In addition, liaisons should eventually pursue deeper and broader ties between the departments by identifying and launching opportunities for communications between other persons in the departments.

§5:8 --Task forces

Many issues regarding communication and collaboration arise over problems and projects that require input and participation from more than just two departments. For example, new product development, or improvements in the level of customer service, logically requires input from specialists assigned to R&D, engineering, manufacturing, sales and marketing. In that situation, organizations may establish a task force consisting of representatives of each of the departments that have an interest in the decision. A task force is a formal, yet short-term and temporary, group that meets only until a solution to the particular problem has been developed that can be supported by all of the participants and the departments from which they have come. In order for a task force to be effective the members must be able to listen to the concerns of the other departments and put the broader needs of the entire organization over the specific near-term goals and objectives of their department. In addition, it is expected that each member of the task force will

[29] J.R. Galbraith, Organization Design (Reading, Mass.: Addison-Wesley, 1977), 195.

take the proposed solution back to senior management within their department to obtain approval that will commit the department to arrange its work activities in such a way that it supports the solution endorsed by the task force.

The intensity of effort required of the members may vary depending on the problem, the information that their department brings to the discussions and the impact of the eventual decision on their department. In some cases members will serve full-time during the term of the task force while in other situations only part-time service may be necessary. Task forces may be brought into operation informally as problems come up or may be convened in response to regular performance reviews. Regardless of how and why the task force is established, it is important to appoint the members and clear their schedules, define the problem, establish a deadline for reaching a decision and identify any limitations on the discretion that may be exercised by the task force. Leadership is an important factor in determining the success of a task force and it is common to designate a senior manager who is not regularly affiliated with any of the participating departments to chair the meetings of the task force and ensure that the task force meets regularly and pushes forward to a solution within a pre-agreed timeframe.

Task forces are often used to facilitate the coordination of interdependent tasks between functional departments. For example, many products are designed and manufactured using what is essentially a sequential work flow that begins with design of the entire product and then continues with the production of each of the key components of the product which are eventually assembled and tested at the end of the process. The production process for each component is itself complex and involves process design, purchasing, manufacturing and materials and quality controls. Since work on all of the components must be coordinated it is not advisable to organize them into self-contained groups. Instead a task force can be formed with representatives from each of functional departments working on the components to collect and share information and collaborate on scheduling and resolution of problems that may arise when the design for the entire product is new to the organization. Since task force members had more information about the scope and progress of the entire project they were in a better position than the functional managers to establish priorities and schedules and the task force took on this role until production of the first group of entire products was completed. Within the priorities and schedules established by the task force the functional managers still had the authority to determine how specific activities would be carried out and how their resources would be allocated. Once the initial scheduling issues are resolved the task force can be disbanded and its members can return to their functional departments.

A task force has certain similarities to a parallel team, which is discussed below, and task forces and parallel teams often address similar problems and issues; however, task forces do differ from parallel teams such as quality circles in several important ways. First, rather than being given a broad mandate to generate ideas for improving processes or the quality of products or services a task force is usually formed to address and hopefully solve a particular problem. Second, members are usually assigned to work on task forces as opposed to relying on and permitting volunteerism. Third, while all parallel teams are temporary groups, a task force is more likely than other parallel teams to have a specific deadline to complete its activities given the problem-solving focus. A task force is a flexible tool that can be formed at any level of the organization and provides an opportunity to bring together the right mix of managers and rank-and-file workers in order to pool the necessary expertise to solve the problem.[30]

§5:9 --Teams

A team is similar to a task force in that it is composed of representatives from multiple departments who are brought together to discuss and resolve strategic and/or administrative issues that involve each of the participating departments; however, as opposed to a task force, which is a temporary and disbands once a specific issue has been resolved or no longer exists, a team often becomes a permanent feature of the organizational structure that can be readily deployed to address and resolve commonly recurring problems that impact the departments represented on the team. In contrast to task forces, which are more informal and focused on a single event or problem, teams tend to follow formal procedures and typically meet on a regular basis, sometimes as often as daily, to discuss problems and simply share information. As is the case when deciding to form a department or an entire business unit, teams can be formed around a variety of outputs including customers, geographic regions, functions, processes, products or individual projects. In general, teams are overlaid on the dominant hierarchical structure of the organization. For example, if the organizational structure is function-based, a team composed of representatives of key functional departments such as engineering, production and marketing might be formed to collaborate on common issues relating to the development and launch of a new product.

Creating a permanent team is an important step that needs to be carefully considered since it will have an ongoing impact on the resources and goals of the departments that are required to participate on the team. Steps should be taken to ensure that information flows to and from the teams and that the activities of the team are fully integrated with the day-to-day workflow of the function-based departments. Team members can be expected to invest a substantial amount of their time in team meetings and will need to balance their loyalties to their departments with the overall goals and objectives of the team, which may be at odds with departmental goals. Another challenge for team members is making sure they are able to complete their department assignments, and participate in departmental meetings, while they are simultaneously involved with team activities. In order to avoid conflicts and misunderstandings between a team member and his or her departmental manager, a conscious effort should be made to establish clear rules and guidelines that each can understand and follow when establishing priorities for the team member's time and activities. In some cases, the activities of the team are considered to be so important and demanding that participants will be assigned full-time to the team for specified periods. A decision of this type raises additional individual issues for the assignee including the need to readjust compensation arrangements and

[30] S.G. Cohen, "New Approaches to Teams and Teamwork", in J.R. Galbraith, E.E. Lawler, III, and Associates, Organizing for the Future: The New Logic for Managing Complex Organizations (San Francisco: Jossey-Bass, 1993), 207.

anticipate the possibility of the assignee returning to his or her functional department at some point in the future.

Several important issues need to be carefully considered when a team is being formed. First of all, it is obviously important to establish and define the principal purpose or mission of the team. While teams can be formed for a seemingly limitless number of reasons a commonly accepted typology classifies teams into parallel teams, project teams, work teams and management teams.[31] A second issue is the projected duration of the team, which obviously is closely related to the identified purpose or mission. Decisions must also be made about how the team will fit into the already created organizational hierarchy including the levels at which the team will operation and the extent of the decision making authority and discretion that is to be granted to the team. Finally, the composition of the team is obviously a key factor in determining the effectiveness of the team and how the byproducts of its activities are accepted by other parts of the organization. In addition, procedures should be developed to reach decisions over issues that cannot be resolved within the team and senior management of the organization should establish procedures for ensuring that the performance and relevance of the various teams is reviewed on a regular basis. As with other integrative mechanisms, teams also require changes in the current workflow that should be evaluated when determining the costs associated with creating and supporting the team. For example, the efficiency of the team may be enhanced by locating team members in close proximity to one another in order to make it easier for them to communicate. If this path is chosen the organization may need to create new work spaces, transfer equipment and establish additional IT network connections.[32]

§5:10 --Integrating roles or departments

As the organization grows and continues to form new departments and other business units the problem of inter-group communication and coordination becomes even more challenging. At this point the integration issue may involve coordinating the activities of hundreds of employees in different subunits spread around the world. In all likelihood the managers of the relevant subunits have had little or no direct contact in the past and existing information systems may not be configured to allow subunits to easily communicate with one another and share information as the need arises. In order to ensure that integration and coordination is given the necessary attention within the organization senior management can create and support organizational roles that are completely dedicated to improving communications between subunits and facilitating

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[31] S.G. Cohen and D.E. Bailey, "What makes teams work: group effectiveness research from the shop floor to the executive suite", Journal of Management, 23(3), 239-290. For other typologies see J.R. Katzenbach and D.K. Smith, The wisdom of teams: Creating the high performance organization (Boston, MA: Harvard Business School Press, 1993); S.A. Mohrman, S.G. Cohen and A.M. Morhman, Designing team-based organizations: New forms for knowledge work (San Francisco: Jossey-Bass, 1995); and E. Sundstrom, K.P. DeMeuse and D. Futrell, "Work teams: Applications and effectiveness", American Psychologist, 45 (1990), 120-133.

[32] For further discussion of team management, see "Team Management" in "Management: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

integration of their activities as necessary in order to accomplish the overall organizational goals and objectives. These integrating roles can be distinguished from the liaison roles described above by the fact that an integrating role is a full-time position while liaisons devote only a portion of their time to integration as they continue to work on their day-to-day tasks in their particular unit. When organizations have a number of persons assigned to integrating roles they may create an entire integration department that would be responsible for organization-wide coordination and include additional resources, such as administrative personnel, to support the activities of all of the employees acting as integrators. An integration department can be particularly effective to facilitate sharing of resources between different units and assisting centralized functional units in allocating their services and attention among the other subunits.

Integrating roles are created in order to further particular business and strategic goals of the organization including new product development, more efficient production and/or enhanced levels of customer service. Integrating roles are intended to create more flexibility within the organizational structure and encourage innovation by bringing together ideas and people from different parts of the organization. Integrators are also charged with making sure that information is exchanged between subunits and that support for multi-disciplinary projects and activities is obtained from every subunit that has the resources, knowledge and specialized expertise necessary to make contribution to the effort. For example, an integrating role within a computer company might be tasked with aligning the activities and resources of the hardware, software and applications divisions in order to develop and support a continuous stream of new products and services. Integrating roles are typically limited to coordination of specific issues or activities such as making sure that two product divisions work together when developing their marketing strategies. This ensures that proper respect and care will be taken in using common brands and that opportunities will be identified to cross-promote the products of each of the business units.

Integrators are often given formal managerial roles such as product, process or market managers. While these titles are often used, the actual scope of authority and influence of the integrative manager can vary substantially depending on the situation. For example, if a project manager is appointed to integrate the activities of various functions to complete a specific project the role of the project manager may be largely ceremonial unless he or she is actually given authority over decisions relating to the project and/or control over the resources invested in the project. If the project manager cannot make final decisions or allocate funds and personnel, he or she must depend on intangibles such as experience, reputation and personality to exert meaningful influence on the managers of the subunits involved to facilitate successful completion of the project. Similarly, a product manager overseeing a product development team might be limited to building informal linkages between team members from different functional units with a primary reporting allegiance to their functional managers. However, it is also possible to strengthen the role of the project or product manager by giving him or her formal authority over budgets or planning even though no one reports directly to that manager.[33]

One important factor in evaluating the efficacy and authority of any formal integrative managerial role is the relative influence of functions and products within the organization. In the example of the product manager above, he or she is likely to be operating in a function-based organization for which functional, technical expertise (and the organization's ability to manage such expertise) is the dominant competitive advantage. If integration of functional activities is so essential to the effective commercialization of the organization's products the organization may go beyond reliance on a product manager and adopt a product-based organizational structure in which business units are organized by products and each unit has the primary responsibility for budgets, personnel and other decisions relating to the development and commercialization of their products. A product-based organizational structure may be dictated by a business environment in which competitive advantage requires continuous and rapid new product development. In that situation functional and technical specialists may be placed under the umbrella of an appropriate product-based business unit and report to product teams or managers and development and coordination of functional and technical specialties across product units will be done through informal technical teams and networks.[34]

The well-known matrix form of organization is a hybrid solution between a function-based organization and a product-based organization that requires that functions and products share responsibility for allocation of resources and decisions. A matrix organization involves dual reporting and authority and will only be successful and effective if the organization establishes procedures for making sure that functional and product managers communicate with one another and that conflicts between the two spheres of influence are resolved in a manner that is acceptable to, and which can be supported by, everyone involved in specific activity. While a matrix organization can be more costly and complex it is often viewed as the preferred approach when equal strategic value is placed on both new product development and functional excellence.[35]

In order to be effective in an integrating role a person must have a good understanding of how the entire organization works and an appreciation of the goals and activities of each of the units that may be involved in a particular project or activity. It is not surprising, therefore, that most organizations turn to senior managers to serve in integrating roles. Senior managers generally have experience in exercising authority and control over large number of employees in a particular unit and will have participated in other integrating procedures—teams and tasks forces—in the past. Senior managers are also more likely to have a broader network of personal relationships within the organization that can be used to advantage when working with managers of different units in their integrating roles.

[33] S.A. Mohrman, "Integrating Roles and Structure in the Lateral Organization", in J.R. Galbraith, E.E. Lawler, III, and Associates, Organizing for the Future: The New Logic for Managing Complex Organizations (San Francisco: Jossey-Bass, 1993), 118-119.
[34] Id. at 119.
[35] Id.

The day-to-day activities of the persons serving in integrating roles will vary depending on the specific needs of the organization; however, it should be expected that they will be heavily involved with the activities of, and often chair, teams and task forces. While the primary goal of integrating roles and departments is improvement of communication between various units throughout the organization, the integrating role may be given independent authority and budgetary resources including the legitimate right to resolve conflicts between subunits. Persons serving in integrating roles generally report directly to the senior management of the organization.

§5:11 Guidelines for effective lateral processes

Lateral processes are an important element of organizational design and the impact of lateral relations strategies increases significantly as the business activities of the organization growth and additional business units are created. As such, senior managers and other involved in the organizational design process need to be mindful of the conditions that must be satisfied in order for formal organizational groups to openly share information, debate alternatives and arrive at decisions that are appropriate for the organization and perceived as fair and legitimate by members of each of the groups that are relevant to the particular activity, issue or problem. First and foremost, lateral processes must have full support of senior management and the organization must provide incentives and rewards for participation. In addition, however, attention must be paid to composition of the group and selection procedures as well as the tools used by groups to resolve conflicts.

Galbraith created the following list of useful guidelines for establishing effective lateral processes, particularly task forces and teams, which can serve as a starting point for deciding which integrating mechanisms should be selected and how they should be implemented[36]:

1. The participants—the managers and employees serving as members of the task forces and teams—must perceive lateral processes to be valued by the organization and must feel that the performance of the group will be an important factor in determining whether their personal needs in relation to the organization are satisfied. For example, members are more likely to take their responsibilities seriously when it is announced that group performance will be taken into account in their personal performance reviews.

2. A substantial minority of the members of a particular task force or team must also have the ultimate responsibility for the implementation of any decisions made by the group. Put another way, members of the group must have some "skin in the game" that pushes them to take the deliberations of the group seriously and ensure that all necessary details are worked out in advance so that no additional issues arise once the focus has moved from communication and negotiation to implementation.

3. Task force and team members must have access to all information necessary in order for them to make the required decisions within the parameters established by the

[36] J.R. Galbraith, Organizational Design (Reading, MA: Addison-Wesley, 1977), 118-127.

senior managers who have convened the group. Among other things, this means that members must come from those levels of the organization where the required information is located and used on a daily basis. For example, it may be a mistake to appoint a higher level engineering representative to a team if that person cannot understand and appreciate the practical impact that a particular engineering decision might have on the other departments involved in resolving the problem.

4. Participants on the task force or team must have the requisite authority to commit their department to take the actions agreed upon by the group. For example, the representative from the manufacturing function on a team focusing on new product development must be able to take the recommendations of the team back to his or her department and convince other department members to integrate the ideas of the team into the manufacturing process for the new product. In addition, however, the representative should have sufficient authority, or power of persuasion, within the manufacturing department to ensure that the team recommendations are accepted and implemented. Nothing undermines the morale and legitimacy of the group faster than to find that a commitment made by the representative of a department is vetoed by a superior. In order to satisfy this condition, departmental managers with the requisite information and authority must be willing to participate on tasks forces and teams.

5. The dominant feature of any task force or team must be knowledge and information as opposed to where participants might normally fall in the day-to-day hierarchical structure of the organization. As necessary, specialists with the needed skills must be drawn from different levels of the organization and any such differences should not slow or impede the problem-solving process for which the groups have been formed. Put another way, higher-level representatives on a task force or team should recognize and respect the potential contributions of lower-level members with the necessary knowledge and information.

6. Lateral processes must compliment, rather than replace, the normal vertical communication processes within the organizational structure. Lateral processes should be used when it is more efficient to attempt to make decisions at lower levels of the organization; however, information regarding the decisions reached through the lateral processes should be disseminated to all parties with a "need to know" so that the information becomes part of the organization's overall information system. If the senior manager of a department represented on a task force or team is not told of the decisions made by the group the manager may decide to limit the discretion of the department's representatives to the group and thus thwart the entire purpose of the lateral process. In order to prevent this from happening it is important for members of any task force or team to establish regular reporting procedures with their departmental supervisors to make sure that information on group activities is being properly disseminated.

7. The optimal mix of task force and team membership is a small core of full-time members joined by a majority of members who participate on a part-time basis. Members working on a project on a full time basis are typically more focused and motivated to successfully complete the project because they have invested a substantial

amount of time and effort; however, the tradeoff is that full time members lose contact with their departmental colleagues who may possess specialist information that would be useful for the project. Part time members retain their regular specialty contacts but will likely be distracted by the need to maintain attention to other activities. As such, a combination of full-time and part-time members is recommended with the mix determined by an assessment of just how valuable ongoing specialty contacts might be during the course of a particular project (e.g., if specialist information does not change rapidly then there is less risk in having more full-time members).

8. Members of any task force or team must be familiar with, and willing to practice, various forms of conflicts resolution practices in order to facilitate and complete the group decision process. While there are many different methods for resolving conflicts the most important thing for members to be able to do is share information regarding their preferences and the reasons therefore, listen to the preferences of other departments and search in good faith for alternatives that will meet or exceed the threshold level of satisfaction for as many departments as possible. Bargaining may be necessary in some situations and every effort should be made to avoid situations where one representative uses his position or control over information or other resources as leverage to force a result on the others.

9. Members of any task force or team must have the requisite group and interpersonal skills to share and consider all information and accept and tolerate the confrontational aspects of the conflicts resolution process that is part of group decision making. This means that care must be taken when team members are selected to evaluate the interpersonal skills of candidates and that resources may need to be invested in training and team-building activities. The human resources department can play a big role in maximizing the benefits that an organization derives from lateral processes by making training available to all managers and employees interested in becoming candidates to serve on a task force or team.

10. While task forces and teams can hopefully arrive at a decision based on consensus, there may be situations where one member of the group must assume a leadership position to force a solution out of the group in order for the business of the organization to proceed. The most likely situation for this to occur is when the actions of the group will have a greater impact on one department than on the others. In that case, the representative of that department becomes the de-facto leader of the group and must make an effort to allow other departments to provide their input and collect information from other departments that will lead to a better decision that is perceived as fair and informed by all group members. In fact, the leader should make every effort to forge a consensus and refrain from forcing a decision unless and until it is clear that one cannot be achieved following a full vetting of the views and concerns of all members. Otherwise the other members may feel that the whole process was a sham and may be reluctant to participate in the future.

§5:12 Assigning and enforcing responsibilities for task forces and teams

In addition to the general guidelines described above for effective lateral processes, there have been a number of specific suggestions about how task forces and teams should operate on a day-to-day basis. For example, Galbraith argued that effective communications and decision making within groups can also be facilitated through the use of a simple responsibility chart.[37] The responsibility chart should identify the decisions that must be made by the group and the members with substantive roles in making the decisions and then describe the specific role that each member is expected to play with respect to each of the listed decisions.

The use of a responsibility chart can be illustrated by the steps that might be taken by a project team formed to develop a new product or process. Assume that the key members of the team include representatives from the R&D, manufacturing, marketing, procurement and finance departments as well as a project manager appointed to oversee the deliberations of the group and the CEO. Obviously it is possible to add other members to this group as circumstances dictate including representatives from other departments and/or specialists from departments included at the time the group is originally formed. The first step for the team members is to identify the most important decisions that might be required during the course of the activities of the team. In this example, decisions on interest might include setting and modifying design specifications, allocations of manpower, setting and modifying the budget and setting and modifying the schedule for completion of the project or specified subtasks. The next step is to determine how each team member is expected to participate in the listed decisions. Several possibilities may be recognized including the following: (i) one member should be given specific responsibility for making the specific decision although the decision should not be made and implemented until steps have been taken to permit the other members to participate in the agreed manner; (ii) other members may be given the right to approve any decision made by the responsible member; (iii) other members might need to be consulted by the responsible member; however, they would not have any specific rights to make or approve any decisions; or (iv) other members might need to be informed of certain decisions; however, there would be no requirement that they be consulted or that they approve the decision.

In the current illustration the representative from the R&D department might have specific responsibility for establishing and changing design specifications for new product; however, it can be expected that consultation with both the marketing department representative and the project manager will be required and that actual approval might need to be obtained from the CEO given the importance of this issue. Unless the design decision has a material fiscal impact, the finance department representative need only be informed of any changes so that modifications can be made to budget that will be used to track the costs associated with the project. Obviously a number of variations are possible including the creation of dual responsibilities for making a specific decision and creating thresholds that must be meant before a member

[37] J.R. Galbraith, Organizational Design (Reading, MA.: Addison-Wesley, 1977), 171-172 (based on R. Melcher, Roles and relationships: clarifying the manager's job, Personnel, (May-June), reprinted in D. Cleland and W. King, Systems, organization, analysis management: a book of readings (New York: McGraw-Hill, 1969), 365-371).

must approve a decision as opposed to simply being consulted or informed. The value of creating a responsibility chart lies in identifying potential conflicts in advance and resolving ambiguities before the activity begins to ensure that decisions are made smoothly. Creation of the responsibility chart should involve the entire team to ensure that there is agreement and understanding among all participants. Once the decision making processes explained in the chart has been used for some period of time the chart should be revisited to evaluate how the processes have worked in practice and determine whether any changes might be necessary.