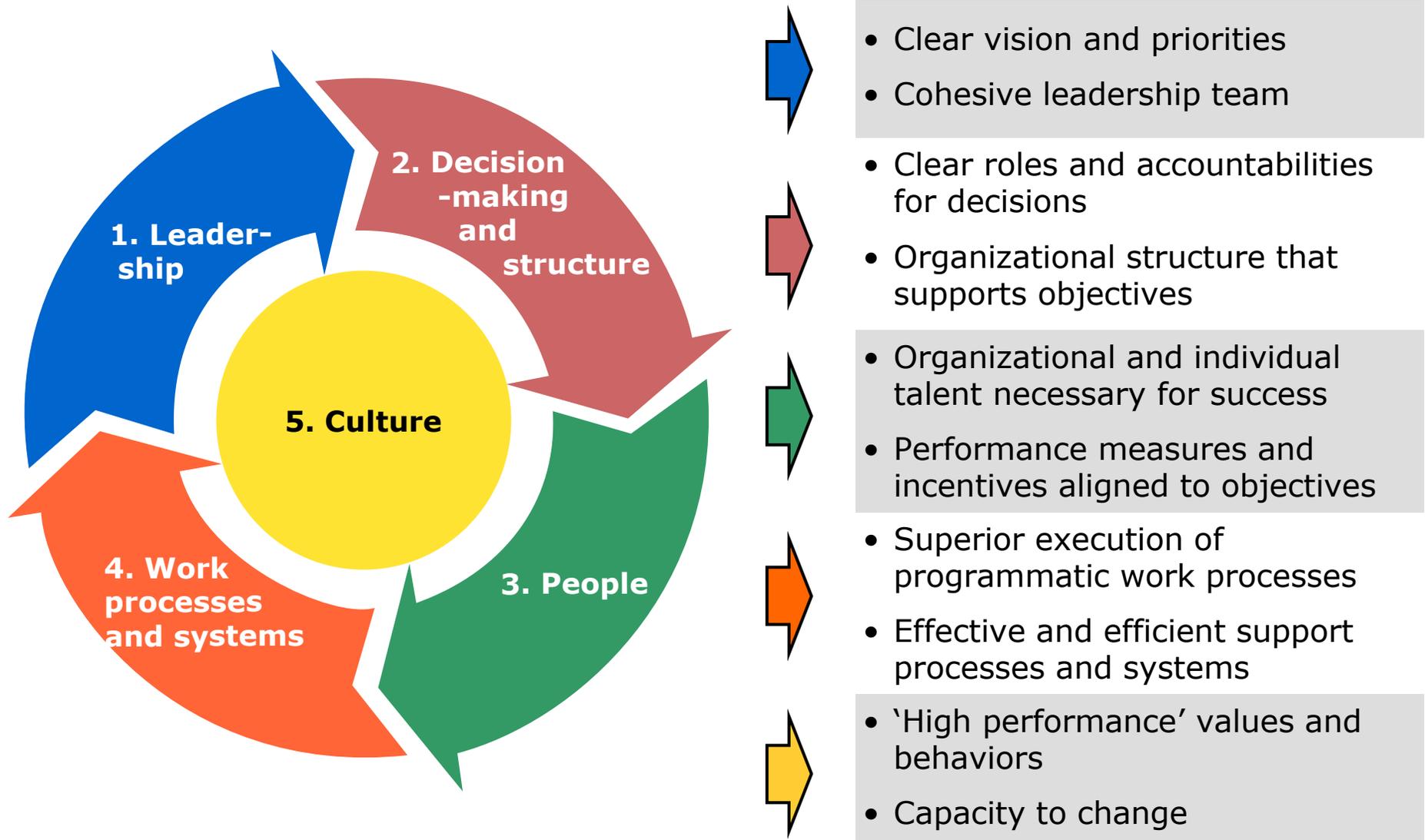


Designing an Effective Organization Structure

January 2009

Effective organization design considers five, interrelated components



Principles of effective organizational design

- ① **Consider all five components of the “wheel”:** A common misstep is to focus on structure alone (boxes and reporting lines) as the solution
- ② **Align the five components to one another:** One element that “doesn’t fit” can limit the performance of the whole system
- ③ **Align strategy and organization to one another:** Organizational strengths and weaknesses influence the range of feasible strategies; in turn, organizations should evolve with any new strategic direction

When structures are ineffective . . .

Likely root causes

Symptoms of an ineffective organization	Likely root causes				
	Leadership	Decision-making & structure	People	Work processes & systems	Culture
Lack of coordination: work unfinished, teams isolated, out-of step	X	X		X	
Excessive conflict: Needless friction among internal groups	X	X	↗ ↘		
Unclear roles: Functions overlap and/or fall through the cracks		X			
Gap in skills or misused resources: Missing or underutilized skills or resources	X		X	X	
Poor work flow: Disruptions, cumbersome processes				X	
Reduced responsiveness: Slow reactions to environmental shifts	X	X			X
Conflicting communications: external stakeholders confused, complaining				X	
Low staff morale: lack of confidence or drive; poor teaming	X				X

Note: "People" causes of excessive conflict are typically related to poor performance measures or incentives, not lack of talent or skill per se.
 Source: Strategic Organization Design: An Integrated Approach, Mercer Delta Consulting (2000); Interview with Peter Thies, Equinox Organizational Consulting; Bridgespan analysis

Basic principles of effective structure

- **No “right” answer:** There’s no silver bullet; every structure has strengths and weaknesses . . .
- **But a better answer:** However, there is likely to be a “better” structure for a your strategy and stage of development
 - Analysis can help determine alternative structures that will support the strategy
- **Making necessary compromises:** Given the organization’s strengths & weaknesses, compromises in structure are often necessary
 - The final structure is likely to be a “hybrid” of the “best” options
- **Managing tradeoffs:** Whatever structure is selected, it’s essential that the organization manage its inherent weaknesses or tradeoffs
 - The “levers” that help manage these tradeoffs are the other 4 elements of an effective organization (processes, people, leadership, and culture)

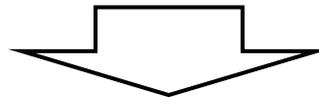
Structures have two components: groupings and linkings of activities

Grouping

- How individuals, jobs, functions or activities are differentiated and aggregated
- Optimizes information flow within the group but typically creates barriers with other groups

Linking

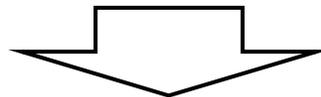
- Mechanisms of integration used to coordinate and share information across groups
- Enables leadership to provide guidance and direction across the organization



An optimal structure balances differentiation (through grouping) with integration (through linking)

We tend to spend 90% of our energy on grouping but very little on linking because:

- Grouping decisions are usually the essence of the change in structure (new units or reconfiguration of old units)
- Grouping is equated with the new hierarchy
- People's jobs (especially those that have changed) are the result of new grouping decisions
- People (incorrectly) assume that most organizational problems are caused by having the wrong grouping



Bridgespan's organization diagnostic data reveals that coordination and linkages are the #1 structural problem facing nonprofits

Five grouping models to consider

Type	Common in . . .
<ul style="list-style-type: none">• Functional	<ul style="list-style-type: none">• Single-program organizations; most frequently used by our clients
<ul style="list-style-type: none">• Geographic	<ul style="list-style-type: none">• Multi-site organizations; frequently used by networks
<ul style="list-style-type: none">• Program (“product”)	<ul style="list-style-type: none">• Multi-service organizations and Foundations
<ul style="list-style-type: none">• Customer/Market	<ul style="list-style-type: none">• Small organizations with narrow customer focus, or large nonprofits where programs/customers align
<ul style="list-style-type: none">• Matrix	<ul style="list-style-type: none">• Large and sophisticated nationwide and/or global organizations



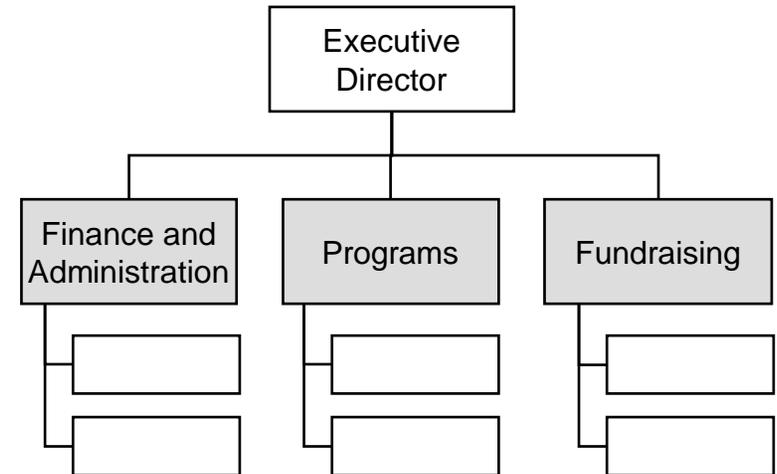
Most organizations end up with a “hybrid” structure, combining elements of different models but with one dominant approach

Functional model

Description • Organized around key functions or departments

Most appropriate when:

- Organization is small and/or has single programmatic focus
- No need to manage across a large geographic area



Pros

- Develops depth of skills in a particular function or department (most jobs are functional in nature)
- Promotes functional innovation, scale and lower costs
- Simple, easy for each department to understand their core responsibilities, and to hold them accountable

Cons

- Functions can work at counter-purposes if they have different priorities and measures
- Focus on function rather than overall organization or beneficiaries
- Processes across functions can break down; individuals unclear on their role
- Cross-functional decisions get pushed up for ED resolution

Ways to manage cons

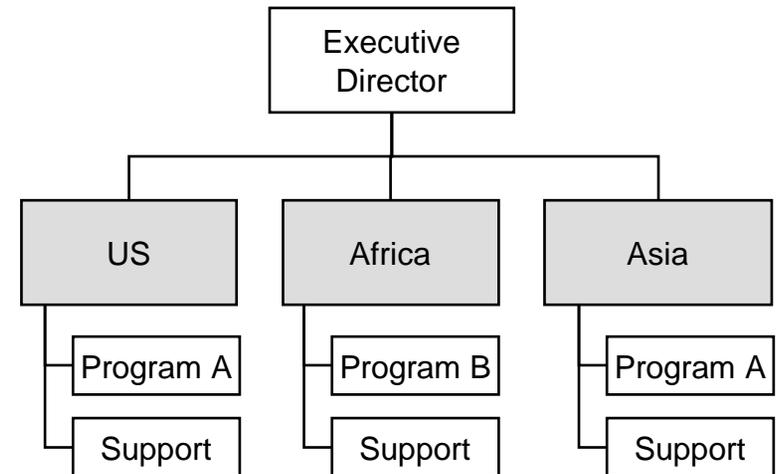
- Requires clarity of vision and priorities, translated into measurable departmental and individual's goals
- Ensure staff see their role in serving customers through processes
- Ensure key work processes are defined, including roles across departments
- Make decision-making explicit (e.g. RAPID tool)

Geographic model

Description • Organized around major geographies

Most appropriate when:

- Organization is large with multiple programs, often different across geographies
- Local differences are critical for success (e.g. regulation, fundraising, economics)



Pros

- Resources needed to succeed within a geography are available
- Allows greater customization of programs or services by region
- Enables clear focus with accountability for results by geography
- Enables focus on geographic funding sources

Cons

- Requires strong skills, particularly of geo head
- Leads to functional duplication and potential loss of control
- Work processes and output (e.g., services) may differ across geos
- Creates confusion about who makes decisions
- Organization becomes heterogeneous; not a unified culture

Ways to manage cons

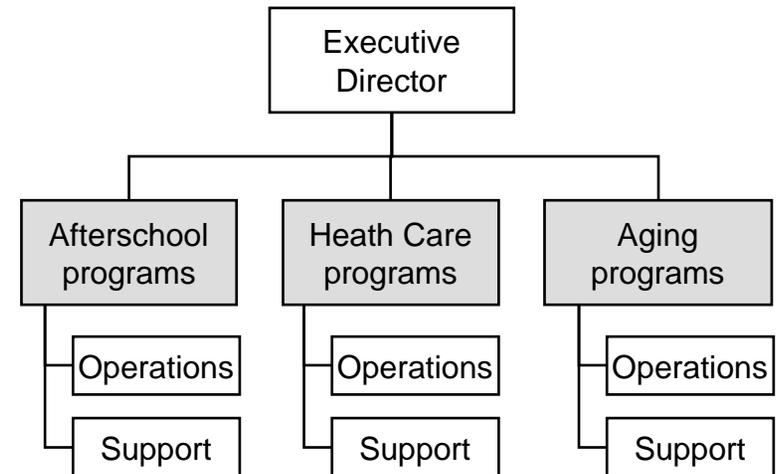
- Focus on hiring, training, and best practice sharing
- I.D. functions to manage globally (e.g. finance); create hybrid structure
- Determine if any key processes should be done in common way
- Make decision-making explicit (e.g. RAPID tool)
- Develop and reinforce elements of common culture (if important)

Program (“product”) model

Description • Organized around major programs

Most appropriate when:

- Programs are very different from one another (e.g. different customers, economics, etc.); these factors are similar across geographies
- Resources and skills needed to succeed by program are very different



Pros

- Promotes depth of understanding within a particular program area; promotes program innovation
- Resources needed to succeed within a program are available
- Enables clear focus with accountability for program results
- Enables focus on funding sources which are often program oriented

Cons

- Requires strong skills, particularly program heads
- Leads to functional duplication and potential loss of control
- Difficult to coordinate common customers across programs
- Organization becomes heterogeneous; not a unified culture

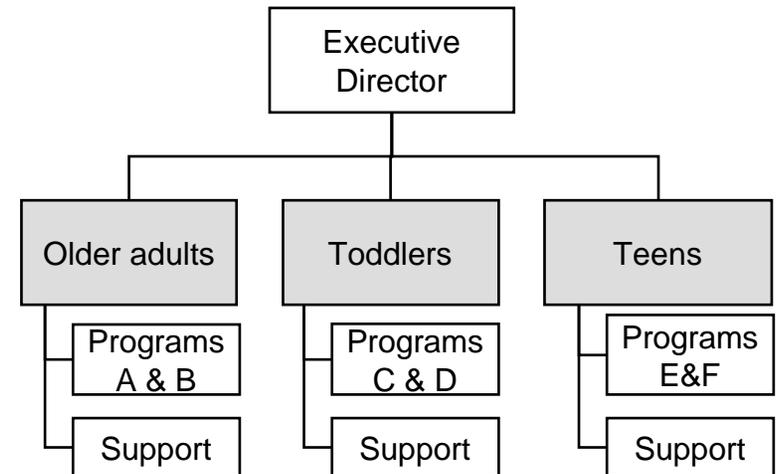
Ways to manage cons

- Focus on hiring, training, and best practice sharing
- I.D. functions to manage commonly (e.g. finance); create hybrid structure
- Develop work processes and systems that enable management and tracking of customers
- Develop and reinforce elements of common culture (if important)

Customer/market model

Description • Organized around customers/clients (beneficiaries) served

Most appropriate when: • Customers are very different, and have different service requirements (resulting in different programs provided)



Pros

- Customer focus enables development of programs tailored to a population's needs and able to get "results"
- Enables clear focus with accountability for results by customer group
- Enables clear focus on most important customers and/or markets

Cons

- Requires strong skills, particularly customer unit heads
- Leads to functional duplication and potential loss of control
- Results in duplication if clients have similar needs (e.g. health)
- Organization becomes heterogeneous, and not an unified culture

Ways to manage cons

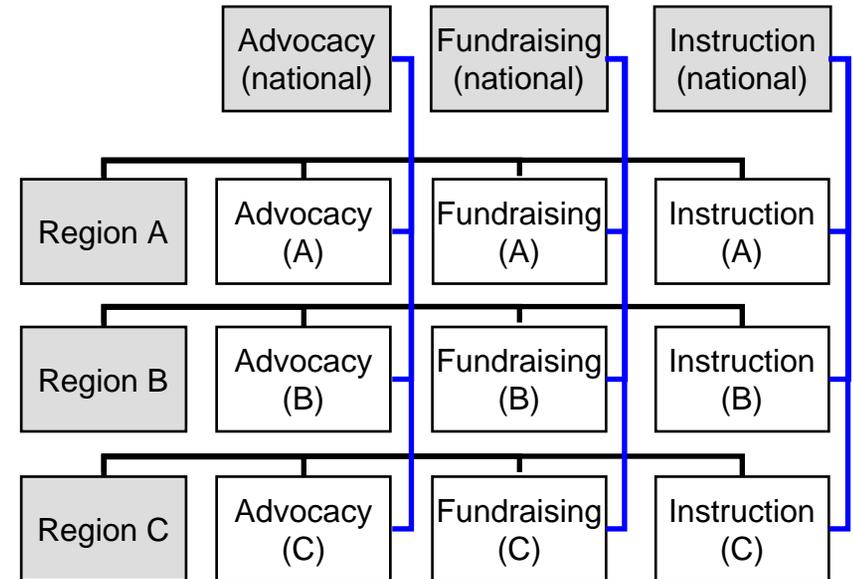
- Focus on hiring, training, and best practice sharing
- I.D. functions to manage commonly (e.g. finance); create hybrid structure
- Determine if a few program areas should be provided across customer groups
- Develop and reinforce elements of common culture (if important)

Matrix model

Description • Organized to manage multiple dimensions, e.g. program and geography

Most appropriate when:

- ALMOST NEVER: VERY DIFFICULT TO MANAGE (NOTE: Decide which organization dimension is most important, and manage the tradeoffs to avoid using this model)



Pros

- Enables organization to (at least theoretically) manage multiple organizational dimensions simultaneously

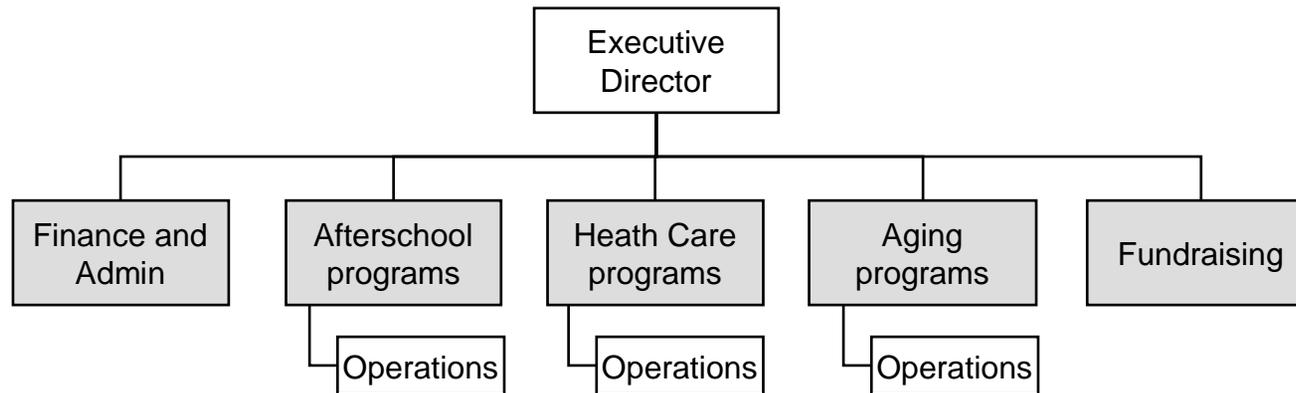
Cons

- Unclear decision-making and accountability
- Individuals unclear who they report to
- Accountability for results is diffuse

Ways to manage cons

- Need clarity around roles and decision-making (e.g. RAPID tool)
- Define management responsibilities for each boss
- HR performance management system that reinforces working together

Many organizations end up with a hybrid developed from one dominant model



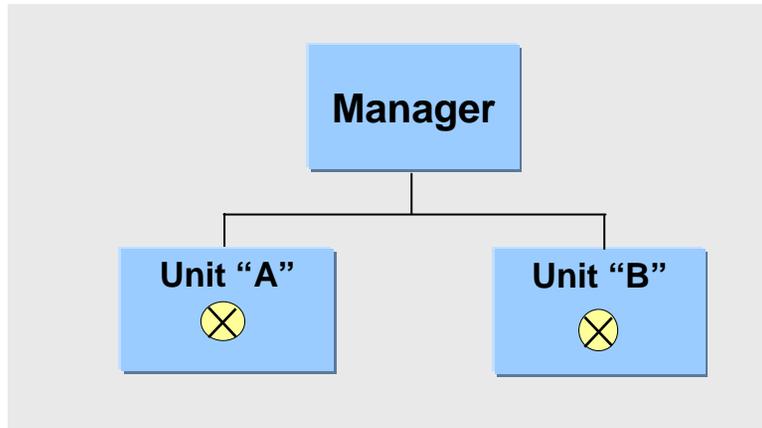
- A common model is a programmatic focus combined with a functional model for centralized support functions for skill, cost and control reasons
- Using these models, ensure that “operating units” get the support they need to avoid creating duplicated support positions
 - Keys to doing this:
 - Define the work of support processes units work together
 - Ensure support units get internal customer feedback on performance
 - For larger organizations consider putting some support people within operating units (e.g. finance support for the Aging program)

Four types of structural linking mechanisms to consider

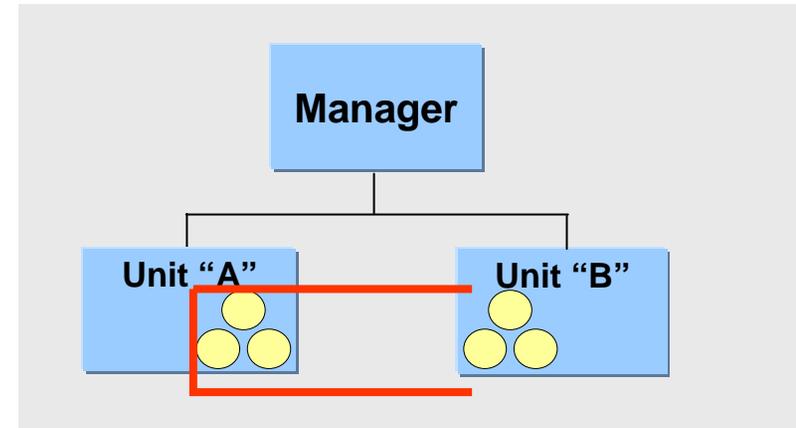
Type	Typically involves . . .
<ul style="list-style-type: none">• Liaison roles	<ul style="list-style-type: none">• Coordination by trusted and respected individuals
<ul style="list-style-type: none">• Cross-unit groups	<ul style="list-style-type: none">• Standing or ad hoc committees focusing on a particular process, product, or customer
<ul style="list-style-type: none">• Integrator roles or projects	<ul style="list-style-type: none">• Managers not supervising but ensuring that processes are executed smoothly across groups, or use of projects
<ul style="list-style-type: none">• “Dotted lines”	<ul style="list-style-type: none">• Linking individuals within functions who are distributed in the organization

Four types of structural linking mechanisms to consider (illustrated)

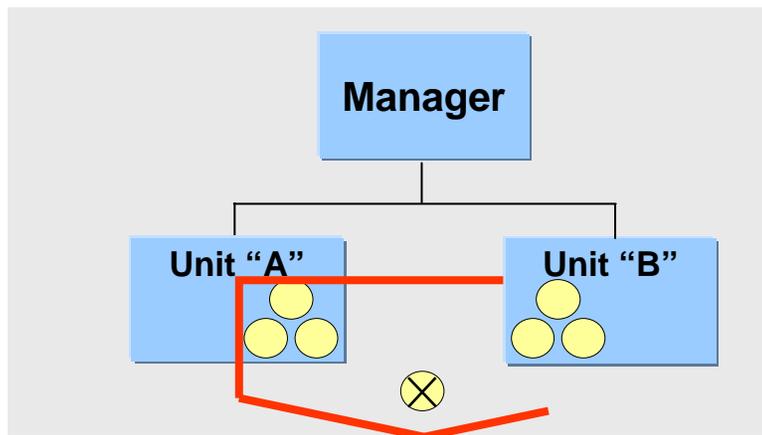
Direct Contact/Liaison Roles



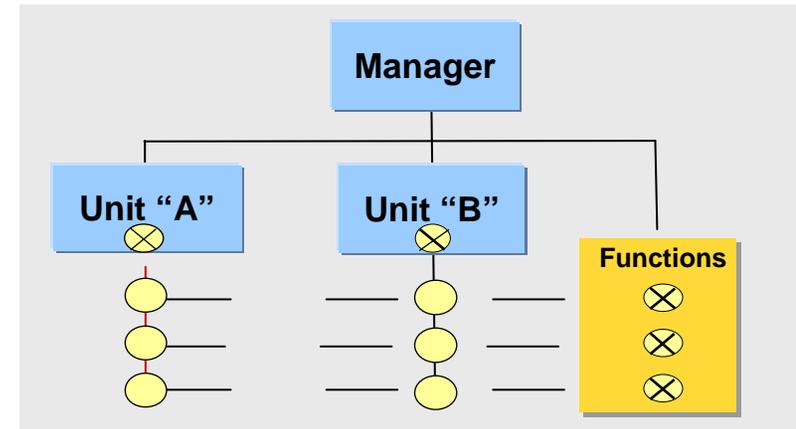
Cross-Unit Groups



Integrators / Projects



Dotted Lines



Symptoms of poorly designed linking mechanisms after organization redesign

- **Symptoms of under-designed linkages**

“The new organizational units are great, but now we’ve just created new silos.”

“We’ve never worked very well across boundaries in this organization: How will the new structure help us do this better?”

“The new groups are fine, but I’m concerned that most if not all of the important decisions will still bubble up to the Executive Director.”

“We don’t know what is going on in other parts of the organization.... Our internal cross-organization communication is poor.”

- **Symptoms of over-designed linkages**

“With all of these cross-functional teams, I’ll be in meetings the rest of my life!”

“This is a little too complicated. It looks like I have to inform everybody about everything all the time.”

NOTE: Sometimes this happens because decision-making roles aren’t clear (see materials on decision-making)

Guidelines for developing effective linkages

- **Spend the time/energy to explore a variety of potential linking mechanisms**
 - Don't just consider structural linkages (teams and roles)
 - Also consider management processes
 - Look at important external interfaces as one means to identify where linkages may be needed
- **Pick a select few linkages; don't overwhelm the organization with too much complexity**
 - For every one you add, think about "blowing up" an old one
- **Remember that part of a leader's job is to link units together and to stimulate collaboration; build this into the design of key leadership roles**

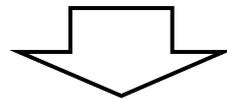
Avoid matrix relationships to solve linkage problems!

- **Matrix organizations are often considered as structural means to solve linkage problems**
 - Experience suggests that they create more problems than they solve
 - Most large companies who tried formal matrix structures in the late 80s/90s are no longer using them; they found them far too complex to manage
 - “If large, sophisticated companies couldn’t make them work, we are likely to struggle with them as well”
- **Some executives reach out for matrix structures because they are unwilling to make a decision between grouping alternatives**
 - Usually one grouping alternative emerges as the best for a given strategy if a systematic evaluation of alternatives with pre-defined criteria is used
 - In you can’t decide, rather than resorting to a matrix structure we recommend picking a good grouping approach and then using other linkages to address the weaknesses of the model

Before re-structuring, however, consider the alternatives



- Re-structuring **often fails** because of the focus on moving “boxes” and shifting reporting lines rather than addressing root causes
- Consider opportunities to **problem-solve using other aspects of “the wheel”**-- a focus on better decision-making or work processes, for example, might have greater and more lasting impact
- Resist the urge to re-structure simply because it makes you feel like “something’s been done”



Just because you can change an organization’s structure doesn’t mean that you should