Nine Tests of Good Organisation Design

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The Nine Tests were first published in the Harvard Business Review in March 2002, as "Do you have a well-designed organisation?" This article updates and simplifies the language.

What are the factors that should guide the choice of organisation design? There are many managerial rules of thumb about things such as spans of control and number of layers. In addition, academics and consultants have produced a huge amount of work on organisation design. But our research told us that managers still lack a framework to guide their organisation choices.

Frameworks like McKinsey's 7Ss or Galbraith's Star Model provide good check lists. But they do not give much guidance on good and bad solutions. Their main message is one of "fit" between the elements. But they give little guidance on how to achieve fit. Hence, an important purpose of our work has been to condense previous ideas on organisation design into a framework that gives guidance to managers on good and less good design.

We took the underlying principles from the work of other researchers, such as the idea of fit between strategy and structure or the idea of achieving a balance between specialisation and coordination, and converted them into nine practical tests. Behind each test is an underlying truth: for example, structure should be driven by strategy, skills are enhanced by focus, coordination across silos can be difficult, people perform best if they feel accountable and can easily measure whether they are succeeding or not. The tests are practical ways of checking whether the design is aligned with the underlying truths of good organisation.

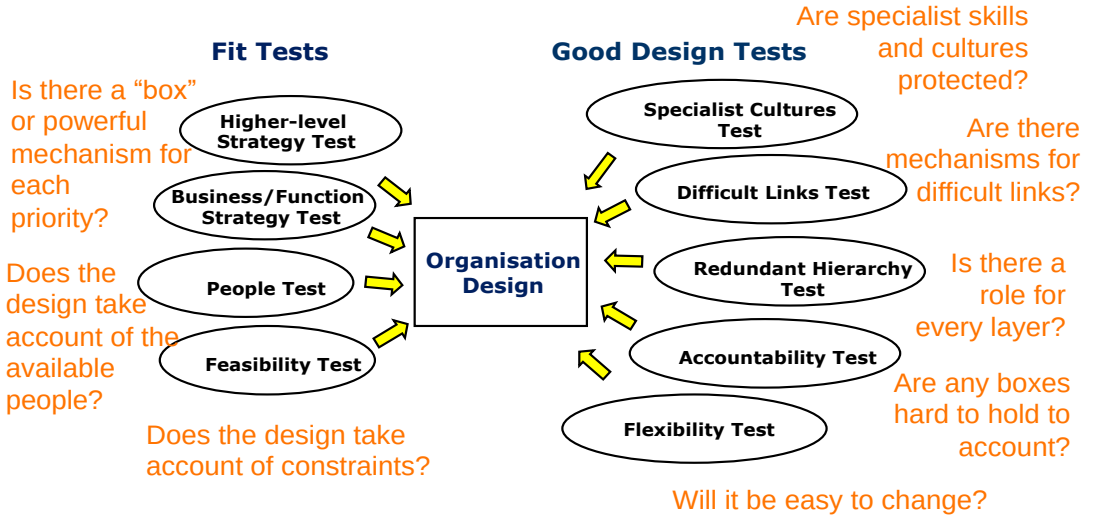

Figure 1: Nine tests for organisation design

The fit tests

One almost universally agreed proposition in organisation design is the idea of "fit for purpose". As most textbooks state, "structure follows strategy". Moreover, in large organisations, there are multiple levels of strategy. So we distinguish between two kinds of strategy: strategy at the level at which a new design is being developed, typically the business, function or department level; and strategy at the next level up. If the design work is focused on a department within a function, then the first level of strategy is the department strategy. The strategy at the next level up is the functional strategy. If the design work is focused on a business division, the first level of strategy is the business strategy, and the next level up is the group or corporate strategy.

Both *strategy tests* are the same: "Is there a 'box' in the structure or a powerful mechanism for each priority in the strategy?"

By a 'box' we mean at least one person focused full time, more normally it is a whole department, function or division. A 'powerful mechanism' could be a committee of senior people or a project team with high-level sponsorship or a commitment to discuss the topic at every senior management meeting. A 'priority' is anything that is important to this part of the organisation. When listing priorities, use the following check list to make sure that your thinking is complete (see template Figure 3):

- types of customer being served
- different geographies where customers are served
- types of channel used to access customers
- types of product or service that are being delivered to customers
- major activities needed to deliver value to customers
- sources of competitive advantage or distinctive competence
- major changes underway or transformations

Each of these 'priorities' needs a 'box' in the organisation structure to ensure that it gets appropriate attention.

Beware of relying only on the priorities listed in strategic planning documents. These plans are often inadequate in providing a full list of priorities. This is because they frequently focus mainly on the changes that are planned to the status quo. As a result, they often overlook those parts of the status quo that are important and need to be maintained.

To apply the strategy tests, it is only necessary to observe whether there is a 'box' for each priority or not. This is simply a matter of comparing the organisation chart with the list of priorities. If there is no 'box' in the structure for a priority (or a 'powerful mechanism' for giving management attention to the topic), this is a problem. The structure does not fit the strategy.

Strategy is not the only dimension of fit. People are also important. Many authorities counsel against designing an organisation around people, preferring to design for the strategy and change the people if necessary. However, people cannot always be changed, and new people with the required capabilities may be hard to find. So designs should take account of the people available, particularly leaders or those with special skills. Most important are the senior people in the organisation who will be around for the next few years. The design needs to accommodate their uniqueness.

The *people test* is "Does the design adequately reflect the motivations, strengths and weaknesses of the available people?"

'Available people' does not only refer to those already in the organisation. It includes those 'available' outside the organisation that can be attracted into the organisation.

A final dimension of fit is "fit with constraints". Constraints on organisational design range from laws laid down by governments (for example in some countries it is necessary to have a local partner) to capabilities or cultures that are deeply embedded, such as legacy IT systems.

The feasibility test is "Does the design take account of the constraints that may make the proposal unworkable?"

Existing structures are feasible at least historically or they would not exist. But often, new design ideas are not feasible because they contravene some stakeholder requirement, law or legacy from the past.

The fit tests bring out the most important inputs that should guide organisation design choices. Provided the design has been selected with these inputs in mind, there should be no problem in passing the fit tests. However, organisation design choices are not always so rational. All too often, organisations evolve in ways that are not driven by strategy, pay little attention to the skills of the managers who will fill the important positions or overlook some important legacy issue. In one company, the organisation had been structured so that each division head had the same number of businesses reporting to him or her. In another, a new decentralised structure failed because the managers were not capable of taking on the new responsibilities. In a third, a proposed structure was never implemented because of resistance from a significant stakeholder.

The fit tests help ensure that organisations avoid these kind of pitfalls

The good design tests

The good design tests focus on what makes an organisation more effective. They help the designer refine the organisation so it will work well. They also help the designer decide when sufficient design work has been done. If organisation designers try to design everything, they will never finish. The job is too big. So organisation designers need to know when they have done enough design, and can leave the remaining details to be worked out by the participants.

People become more skilled if they specialise. This suggests that units should be structured to encourage the development of specialist skills, and that boundaries between areas of specialist skill are helpful. But, departments with special skills need to be coordinated. This suggests that organisations must have good mechanisms for helping managers work across organisational boundaries.

Trade-offs between specialisation and co-ordination are a central part of good design work. A functional structure may drive economies in purchasing and manufacturing, but be detrimental to the development of specialist products for particular markets. A geographical structure may support the special skills needed for different regions, but prevent effective co-ordination in product development or IT infrastructure. Two tests help with these trade-offs.

The specialist cultures test: "Are 'specialist cultures', units in the organisation that need to develop specialist skills, given sufficient protection from the influence of the dominant cultures?"

The difficult links test: "Do mechanisms exist to smooth the coordination of 'difficult links', links between units that will be hard to achieve on a networking basis?"

The specialist cultures test recognises that specialist skills will thrive only if the managers concerned are given some insulation from the influence of other parts of the organisation. For example, sometimes the

best way to develop and market a new product is to set it up as a separate business unit, with little or no contact with the rest of the company. Alternatively, instead of setting up a separate unit, it may be possible to ensure that the specialist culture receives sufficient protection by flexing corporate policies and procedures or by delegating more powers. The test focuses attention on the dangers of smothering parts of the organisation that need to be different from the mainstream culture that surrounds them.

The difficult links test recognises that some co-ordination is hard to achieve through spontaneous networking between managers in different specialist units. For example, the establishment of common technical standards is unlikely without a corporate policy which makes them mandatory. Also, units with competing objectives, such as the desire of operations to have long production runs and the desire of marketing to provide variety, normally need help to resolve their differences.

Organisation designers should focus only on those links that will be difficult: where normal networking is unlikely to deliver the benefits. Causes of difficulty can range from personal chemistry to competing objectives. For these difficult links, it is necessary to develop co-ordination mechanisms to overcome the difficulty, or to readjust the design so that the co-ordination lies within the responsibilities of a single unit. The right solution depends on the cause of the difficulty.

Together, the specialist cultures and difficult links tests give managers a powerful means of assessing the trade-offs between co-ordination and specialisation. In the 1980s, IBM decided to set up its PC division as a very separate unit, free from the influence of the IBM corporate culture and policies. This promoted a specialist PC culture that was highly successful in bringing the new product to market rapidly. Using a similar logic, many commentators argued that, when faced with performance problems in the early 1990s, IBM should break up the whole company into separate, independent units. Lou Gerstner, however, believed that the opportunity for IBM lay in providing integrated customer solutions. He therefore kept the company together. But he recognised that co-ordination between the company's separate product divisions needed to be strengthened. He therefore gave authority to IBM's Sales and Distribution division and to a new unit, the Global Services division, to do whatever was required to satisfy the customer. These divisions assembled integrated solutions for customers from the products of other divisions, and, if the right products were not available, they could go to competitors. This organisation design radically reduced the power struggle that had been going on between customer facing units and product units in IBM.

As organisations get larger, delegation becomes important. Decisions need to be delegated to the person or team best placed to assemble the relevant knowledge and competence at reasonable cost. Unfortunately, most organisations do not delegate enough. They retain too many powers and decisions at higher levels in the hierarchy. This leads to a third 'good design' test:

The redundant hierarchy test: "Does each layer in the hierarchy have an added-value role and the capability to deliver it?"

The thought here is that responsibilities should only be retained at higher levels if there is a knowledge or competence rationale: if it is easier to assemble the relevant knowledge and competence at the higher level. Typically it is easier for managers lower down in the organisation to assemble the appropriate information because they are closer to customers and closer to the technology needed to serve customers. Hence delegation is the default position. By asking how the hierarchy adds value, organisation designers can help companies sharpen their thinking about the number of layers in the structure and the activities that should sit at higher levels. The redundant hierarchy test formalises these questions.

Ideally each unit is designed so that it is motivated to self-correct whenever performance is not good enough. Pressures come from the relationships the unit has with its internal and external customers, the performance measures for the unit, and the unit's reporting relationship. Market-facing business units with arms-length customer relationships and bottom-line performance measures are relatively easy to motivate and hold to account. Corporate functions with no external customers, tied internal relationships and subjective performance measures present more accountability problems. In a complex structure, it is all too easy to create a design that looks good on paper, but leaves some units de-motivated and unclear about their performance objectives or creates managerial roles without the ability to control those who report to them.

The fourth 'good design' test is:

The accountability test: "Are any organisational units in the structure hard to hold to account?"

This test deals with two challenges of decentralised structures: how to maintain appropriate control and how to ensure high levels of motivation. Units should feel strong pressures to self-correct if they are failing to deliver, and managers to whom the units report should be able to identify problems easily and promptly. This requires a control process for each unit that is appropriate to the units' responsibilities, economical to implement, and motivating for the managers in the unit?

The accountability test helps managers design units and establish performance measures that produce effective, low-cost controls that are highly motivating.

Organisations need to change. The modern company will typically make significant organisational changes every second or third year and minor changes two or three times per year. Flexibility is essential. This gives our last 'good design' test

The flexibility test: "Is the design flexible enough to adapt to future challenges?"

Structures should be designed to encourage innovation and to be able to adapt as uncertainties become clarified and environments change. An organisation design that is perfect today is of little use if it cannot adapt to cope with the conditions of tomorrow.

The flexibility test recognises that some structures allow for evolution and adaptation, whereas others build in power bases or processes that resist change. The test challenges the designer to consider the changes that may be needed in the future and whether the proposed structure will make these changes easy or hard.

Using the tests

The purpose of the tests is to raise issues. A key benefit from using the tests comes from the ideas for design improvements that they suggest. For example, a common problem is the creation of a layer of management, say a geographic region or a product group, without specifying what responsibilities should be retained by this layer and why. The redundant hierarchy test helps point out this design weakness, alerting designers to the need either to eliminate the layer or to define the responsibilities, skills, management processes and leadership style that will make the layer a positive influence on performance.

Some issues raised by the tests point to unavoidable trade-offs: "do we gain most from focusing on products or geographies?" Often there is no clear answer to these trade-offs, but making sure that the question is asked helps managers to find a reasonable balance between the competing interests. By pointing out the trade-offs and weak points in a chosen design, the tests help managers anticipate problems and adjust the

design if appropriate. The tests also help managers weigh the advantages and disadvantages of different designs, providing a rigorous analytical structure for making design choices.

The nine tests are the core around which we have built our new approach to organisation design. The attached worksheet (Figure 2) helps managers use the tests to improve their designs. Typically, the nine tests will raise ten or more concerns and issues, some minor and some major. The space at the bottom of the worksheet is for summarising the "big issues" that emerge. These are those organisation weaknesses that could significantly undermine performance. Sorting through the longer list of issues to identify the big ones requires judgment. But, with a structured worksheet, it is easier to involved managers across the organisation in this judgment.

Figure 2: Work sheet for Nine Tests

Fit with:	Test	Issues
Higher-level Strategy Test	Is there a box or powerful mechanism for each priority?	
Design-level Strategy Test	Is there a box or powerful mechanism for each priority?	
People Test	Does the design fit the available people?	
Feasibility Test	Does the design take account of constraints?	

Good Design	Test	Issues
Specialist Cultures Test	Are specialist skills and cultures protected?	
Difficult Links Test	Are there mechanisms for difficult links?	
Redundant Hierarchy Test	Is there a role for every layer?	
Accountability Test	Are any boxes hard to hold to account?	
Flexibility Test	Will it be easy to change?	

Big Issues	

Figure 3: Template for the “Design Level Strategy Test”

Strategic Priorities (list all not just the new things)	**Test score (OK, X or ?)**	**So what (issues and implications)**
Products (list all the organisation's products and services) …….. ……. ……. ……. …….		
Market segments (list all the customer segments that the organisation wants to serve) …….. …….. …….. ……..		
Geographies (if not covered by market segments, list all the geographies that the organisation wants to operate in) …….. …….. …….. ……..		
Channels to market (list all the channels to market that the organisation wants to use: direct, wholesalers, on-line, etc) …….. …….. ……..		
Sources of advantage (list the two to five sources of advantage that will make this organisation successful) …….. …….. ……..		
Other important operating activities or projects (list important steps needed to create and deliver value that are not listed above) …… ……. ……. ……. ……. …….		