

# The Complete Guide To Organizational Design



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Redesign Your Organization For Success

As businesses grow, processes, structures, and systems that once worked well start to outlive their usefulness, if organizations fail to continually adapt them to current needs and opportunities.

No surprise that a [2016 study](#) found that 92% of companies rank org redesign as the no.1 initiative.

But instead of serving the business, it becomes a barrier to efficiency, customer service, employee engagement -- and ultimately, financial performance. If left unchecked, this "organization erosion" causes the business to stagnate into a shadow of its former self.

To avoid this fate, businesses must periodically 'regenerate' to meet customer needs and fit the realities of their internal and external environments.

That's where organizational design comes in.

## What Is Organizational Design?

Organization design is the process by which leaders thoughtfully, and holistically develop processes, procedures, structures, and systems that support its strategy and culture.

When successful, [organizational design and development](#) initiatives enable a host of positive outcomes and address a laundry list of issues faced by many businesses.

## What Is Organizational Design Used For?



### Reinforce Positive Outcomes

- ✓ Faster execution of your strategy
- ✓ Better customer service
- ✓ Increased profitability and reduced operating costs
- ✓ Greater agility
- ✓ Greater efficiency and faster outputs
- ✓ A culture of committed and engaged employees
- ✓ Lower turnover and absenteeism
- ✓ A clear management and growth strategy



### Address Negative Outcomes

- ✗ Inefficient workflows and redundant processes
- ✗ Lack of customer focus
- ✗ Lack of system, process, or outcome ownership
- ✗ Delayed or ineffective decision making
- ✗ Poorly defined or misattributed KPIs and incentives
- ✗ Mistrust between colleagues, teams, and leaders
- ✗ Lack of effective problem solving

So, it should be no surprise that — according to [research by Deloitte](#) — the importance of organizational design makes it a top concern for 90% of senior leaders.

To realize these benefits, a business must realign its existing processes, procedures, structures, and systems using a *socio-technical* approach.



## What does that mean? Businesses have two main components:

**1. Technical systems** that concern how work is done, workflow, structures, and technologies

**2. Social systems** that concern business culture, leadership, people and their skill sets.

Both of these are critical elements of organizational design.

Oftentimes, businesses going through reorganization focus only on technical systems, and within those, almost exclusively on hierarchy - the “org chart.”

### Call-out/Tip

This is one of the main reasons why so [many change initiatives are unsuccessful](#) — they fail to take the holistic approach needed to avoid resistance and successfully embed change.

If you try to change organization systems without involving the people who make up those systems, resistance is inevitable. To see lasting success with organizational design, a business must give equal attention to both technical *and social systems in an integrated approach*.

## Organizational Design Principles

1

There is no “best practice”

2

Start with a clearly defined strategy

3

The design answer is in the room

4

Organizational fit and integrity matter

When it comes to designing socio-technical systems, there are several things to consider.

First, always remember the purpose of the exercise: to change your organization's behavior in order to execute your strategy. To achieve this, you'll have to juggle a large number of disparate concerns and competing priorities.

Ultimately, every decision you make should be considered in relation to the purpose of your business. And with this firmly in mind, there are four basic organization design principles.

## Principle #1: There is no 'best practice'



Leaders love to benchmark. The logic is simple — if you're doing things in line with others in your industry, you can't stray far or go wrong. However, trying to "clone" other's success is **not a good approach** to business organizational design.

As much as big consulting firms like to push standardized organizational design structures, they don't work in the real world. Every business is different, and what works for one could be inappropriate for even its closest competitors.

To succeed, you have to find your own way. You can't be beholden to templates, best practices, or benchmarks.

## Principle #2: Start with a clearly defined and understood strategy



Leadership teams often have a good grasp of the benefits of organization design. However, they often lack alignment and a uniform understanding of the overarching strategy.

At the highest level of abstraction — where people are most comfortable — it's easy to agree to a clear strategy. However, this is by far the least useful level to consider organizational design strategy. It's easy to agree to a high-level strategy because there are almost no trade-offs or real-world decisions to make.

To set your business up for success, you must drive your strategy to a level of specificity that forces leaders to make clear decisions and trade-offs — including those related to resource allocation and competitive differentiation.. You have to be prepared to say 'No' to things that don't align to your strategy and organizational design.

This is a tough task, and will lead to disagreements. However, by taking the uncomfortable step of making these trade-offs upfront, you'll avoid roadblocks later on.

### Principle #3: The design answer is in the room



The answer to your organizational design conundrum won't come from a big consulting firm, an analyst, or even from us. Within your team, you already have the intelligence and experience needed to produce the design you need.

While working towards your design, understand there are usually at least a handful of workable solutions. Choosing the optimal solution for your business comes down to your strategy and the trade-offs you're willing to make.

So, what do you need experts for?

Most often, the need for outside help is concerned with a rigorous methodology, an understanding of organization psychology and behavioral science when it comes to change, and the need for an independent voice to guide and push internal decision-making.

It's also valuable to have outside help to guide the change and transition management process. Change can be culturally and emotionally difficult, and expert guidance can ease what is often a painful process.

### Principle #4: Organization fit and integrity matter



The impact of culture on organizational design is significant.

You can't expect to succeed with a benchmarked or 'template' approach. You have to develop a plan that fits the unique needs of your business. This requires attention to both technical and social systems.

Organization design is about creating a coherent and self-reinforcing ecosystem that adapts to the needs of your customers, market, and competitive dynamics. For this to be possible, you must focus simultaneously on micro and macro considerations:

At the **micro** level, you must deliberately [make trade-offs](#) and mitigate their downsides. At the **macro** level, you must ensure all decisions are made with the ultimate business strategy. As hard as it may be, leaders must govern this process and be the ultimate decision-makers about what's best for the business.

## 6 Approaches To Organizational Design You Should Avoid

Now that we've covered the basic principles of organization design, it should be clear that a holistic approach is critical. Success is about finding your organization's unique path.

And with organization design being so critical to business growth, why is it that nearly [60% of respondents](#) in a recent study said they experienced a reorg in the last 2 years? With 44% of them burning out before they've accomplished their objective.

The problem is that there are plenty of ways to get it wrong. With that in mind, here are six common approaches that simply don't work:



### 1) Focusing only on the org chart

It's tempting to begin a design initiative by focusing on technical systems — most often by rearranging the org chart. This is *absolutely* the wrong approach.

Social systems are at least as important as technical systems, because both comprise the “work” being organized. Trying to create the foundation of your design without considering them is a sure route to failure.



### 2) Relying on benchmarks or templates

No matter how tempting they are, benchmarks and templates will *never* get you to a successful design.

Your business must find its own path - one that is not KPI-centred alone, but that is also committed to focusing on growing the relationships and roles that will be carrying out work in the new design.



### 3) Delegating the work

**Organizational design** is among the most important work you can do as a leader. Your approach to undertaking this can make or break it's success.

If you want a cohesive, holistic design and collaborative organization that's geared towards its overarching strategy, use a holistic and collaborative approach to design it. Your [leadership](#) not only produces the design blueprint — it demonstrates the attitude and models the commitment needed to make it a reality.



### 4) Looking for the 'smart' answer

Elegant and clever solutions are alluring, and there are no shortage of management fads to grasp onto. Silver bullets are always tempting, but they are rarely effective. While they look good on paper, they don't stand up to real-world challenges.

Organizational design is about making tough trade-offs and aligning leaders behind those decisions. You must be willing to make decisions with full knowledge of the consequences, and put measures in place to limit downsides.





### 5) Working in the wrong direction

Org charts should always be informed by need, not the other way around. Designing an organization to succeed **always** starts with the desired end result — effectively delivering on a strategy.

Instead of starting from where you are and 'tweaking' broken spots, evaluate how to best serve your market and work backward from there.



### 6) Not being willing to 'pay now'

Business change comes in two flavors: pay-now or pay-later. By investing time, energy, and resources in design upfront, you'll reap significant dividends later through the change management and organization design implementation process.

Visible, unified direction from leaders will influence employee commitment and build momentum toward a full and successful transition.

## The Organization Design Process

Traditional organizational design used a two-step process to plan and implement major changes:

1. Hire management consultants to diagnose problems and design a solution; and,
2. Hire a change manager to plan and oversee implementation.

While there is logic to this approach, it has several drawbacks. Most notably, it's expensive and highly prone to failure.

Why's that?

Perhaps the most significant factor in the failure of change initiatives is they assume you can tell exactly what needs to change — and how — *in advance*. They work on the basis that major changes can be made using a simple formula:

**Assess** ➡ **Plan** ➡ **Implement**

There have been many times when Navalent has been called in to implement the organizational design of businesses that have been left holding a plan created by an external analyst.

While these plans look good on paper, they don't stand up in the real world. And, because all the planning work was done upfront, it's too late to change anything once implementation begins.

This flawed approach to organization design is a big reason why — as the McKinsey study we highlighted earlier points out — an incredible 75% of change initiatives fail.

At Navalent, we take a different approach. Our five-step modern organizational design process has helped hundreds of businesses assess, plan, and implement design initiatives over the last 30+ years:



## Step 1: Design context and diagnosis

- ➔ **Assess the business' external environment.** Includes any changes in customer needs, the regulatory landscape, competitor analysis, etc.
- ➔ **Assess and diagnose the business' internal environment.** Highlight areas where people, systems, or processes are not in line with the strategy and identify the source of any issues.
- ➔ **Establish leadership buy-in and direction.** Leaders are best placed to diagnose, design, and orchestrate change. Without full, explicit leadership buy-in, no change initiative can succeed.

## Step 2: Strategic mandate

- ➔ **Set strategic priorities.** These relate to how a business will continue to achieve its mission. Most often, this relates to properly serving customer needs.
- ➔ **Set operational priorities.** These relate to the internal landscape of a business, and how it will support the overarching strategy.

Once this step is completed, the business can also assemble the design team and set program criteria and constraints.

## Step 3: Strategic organization design date

- ➔ **Current state alignment.** Determine how the business' current internal landscape needs to change to meet new strategic and operational priorities.
- ➔ **Develop and explore alternative models.** Work with internal resources to find opportunities for improvement and test different ways of working.
- ➔ **Locate work and categorize resource implications.** Identify all work required to meet competitive and regulatory needs. Identify the organization roles and resources needed to complete each work item.
- ➔ **Evaluate and select the best-fit model.** Explore candidate designs in-depth and identify the model that best fits the business' objectives and needs.

## Step 4: Operational + functional organizational design

Only now that all strategic design decisions have been made is it time to consider building an org chart. This is the polar opposite of the way most businesses approach change and is partly responsible for the much higher success rates seen at Navalent.

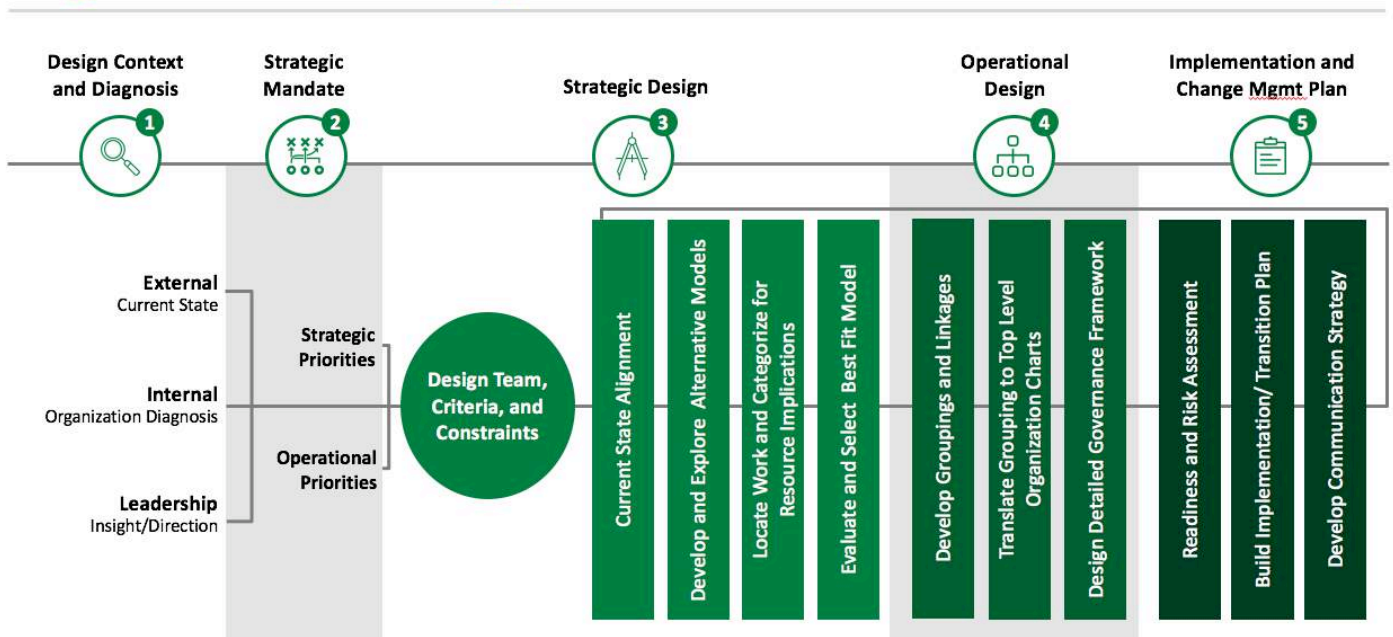
- ➔ **Develop groupings and linkages.** Group roles into teams and departments and identify linkages needed to ensure all necessary information- and workflows are present.
- ➔ **Translate grouping to top-level org charts.** Once the basic organizational design and structure is in place, groupings can be used to produce a top-level org chart.
- ➔ **Design a detailed governance framework.** Structure and delineate management and leadership roles throughout the business, including direct report responsibilities.

## Step 5: Implementation and change management plan

Once all of the groundwork has been laid, it's time to thoroughly plan and implement the new organization structure.

- ➔ **Readiness and risk assessment.** Change can be a painful and emotional process. Success relies on thorough preparation and identification of possible barriers.
- ➔ **Build an implementation/transition plan.** Once the team has identified all hurdles, it produces a holistic plan to move the business from its current reality to the newly agreed design.
- ➔ **Develop a communications strategy.** People often feel threatened by change. A comprehensive communications strategy is essential to get people on board and ensure a smooth transition.

## Organizational Design Process



# How To Prepare For Organization Design

There are many things you can do to lay the groundwork for an organizational design initiative. Most of them relate to properly understanding and involving the people who work in your business - but in essence you'll need to ask yourself 4 main questions:

- ➔ Where does our organization excel at delivering our [strategy](#), and where do we struggle?
- ➔ What behaviors and skills do we need to deliver this strategy, and where are they missing?
- ➔ What makes our business uniquely compelling to our primary customers and the top talent we want to attract?
- ➔ What levers do we need to pull to successfully make change? (Depending on your business, they could be anything from financial incentives or adopting new technologies, to structural change and cross-functional dynamics).

“One of the most inspiring parts of our work is watching design teams discover their future together. They get into the room, wrestle with really hard challenges or go after big opportunities, and eventually they build the organization that can get them where they want to go. The process is one of the most powerful approaches to transformation that exists.”



**Mindy Millward**  
Co-founder & Managing Partner



Ultimately, the #1 barrier you'll face to successful organization design is change resistance and fatigue.

Many people see change as a threat. It threatens existing employees with the loss of time, resources, comfort, control, and ultimately their jobs. Even the hint that a major change project could be imminent is enough to make people mistrustful of their manager, leaders, and even colleagues.

Worse, when an organization has a track record of failed change, people roll their eyes when the “new flavor” is announced. Cynicism has set in and people already expect “this one” to fail too.

Simply, one of the most important steps in preparing for organizational design [is preparing people for change](#). To do this, you'll need:

- ➔ **A strong and inspiring vision.** This is one reason why leadership buy-in is so crucial. Without it, you'll never win the 'hearts and minds' of employees, and ultimately, you'll face too much resistance to make real change.
- ➔ **Team-level involvement from day one.** Nobody wants to have change inflicted on them. By involving teams from the start — and taking their feedback seriously — you'll give them a chance to 'own' part of the process, reducing their resistance to it.
- ➔ **Measurable quick wins.** Slow and steady may eventually win the race, but there has to be early proof your design is viable. There must be metrics in place monitoring the design's progress. If it takes too long to see results, resistance and cynicism will rise quickly.
- ➔ **Recognition that some aspects of the existing culture are worth saving.** You can't expect to change every aspect of your business' culture without resistance. Try to identify aspects of the culture that add value, and take pains to preserve them.

# Pre-Packaged Organizational Design Models

This is a common element to organizational design models, which help a specific type of business 'level up' its structure or culture. In other words, is there a "plug and play" organization design we can readily emulate and adopt?

Our position is clear: pre-packaged organization design models completely miss the point of the organizational design process. Every business is different and must develop its own design to meet its unique needs and culture. Your design should help your business achieve its goals by focusing on what makes it different, not by how you can be like someone else.

After all, how can you expect to outperform or differentiate from your competitors if you're trying to copy (or 'benchmark') their design?

## Call-out/Tip

There are likely to be multiple designs that could help your business achieve its objectives. Ultimately, you'll choose the **one** design that best fits your strategy and the trade-offs you opt to make.

Nobody can make those decisions and trade-offs for you — your business leaders are the only people who have the necessary knowledge, context, and 'feel' for the business.

Nonetheless, plenty of consultants will happily offer you a prescriptive 'plan' based on your business size, type, or industry. These plans will never truly fit your business because all trade-offs have been made for you by consultants who don't understand your cultural or leadership dynamics.

So, instead of taking the easy (and ineffective) path, be ambitious. Create your own 'models' of organizational design based on five simple concepts:

1

Organize  
around  
advantage

2

Create boundaries  
between types  
of work

3

Focus on the  
seams (not the  
functions)

4

Distribute  
decision rights  
fairly

5

Design clear,  
meaningful  
roles



## 1) Organize around competitive advantage

First, answer the critical questions of identity for your business:

- ➔ What sets us apart?
- ➔ What are our markets?
- ➔ Who is our customer?

These may seem obvious, but they often go unasked. If your design *isn't* based on an understanding of what makes your business different, it can never help you achieve business objectives.

## 2) Create boundaries between competitive and necessary work

**Competitive work** drives or acts as a support function for the business' ability to compete. Your design must organize this work for *mastery*.

**Necessary work** is what you have to do to meet administration, regulatory, or compliance needs. Your design should organize this work for maximum *efficiency*.

When competitive and necessary are too close, it's easy for mundane tasks to infringe on strategic work. Create clear boundaries to prevent this from happening.



## 3) Focus on the seams

Some of the most important work in your business will be a collaboration between individuals in different units. Product innovation, for instance, sits at the intersection of R&D, marketing, and business intelligence.

In your design, focus plenty of attention on the 'seams' between business units, and ensure tools and processes are in place to support coordination across them.

## 4) Distribute decision rights

Most reorganizations fail to consider the distribution of decision rights. This is a huge mistake. The way decision rights are distributed can either promote desirable behaviors and avoid negative ones — or just the opposite.

A good decision architecture is foundational to how your business works. It sets out the authority structures, roles, and processes responsible for managing every aspect of the business.

By spreading decision rights fairly, you clarify what each role or team is responsible for and give people the sense they play an active role in the business' future.



## 5) Design clear, meaningful roles

Roles must be designed based on necessary work and outcomes — **NOT** on people's preferences or skills. There is no value to a role that maximizes existing skills if those skills don't help forward the business agenda.

However, it's still important to design roles so people are continually challenged and fulfilled. It contributes to job satisfaction and helps prepare individuals for future promotion to leadership roles.

# Organizational Design Challenges Most Leaders Misdiagnose

Now we've covered the basic organizational design steps, we'll look at some common mistakes leaders make at the outset of a design project. Usually, these relate to a misdiagnosis of the problem they need to solve.

While some basic challenges of organizational design can be easy to predict and rectify - others can be more nuanced and pernicious in nature. Being aware of these up front can give you an edge on identifying and overcoming them.



## Misdiagnosed Symptom: Competing priorities

**Real Design Challenge:** Poor governance

It's easy for individuals, teams, departments, and even leaders to become competitive. If left unchecked, this can cause serious rifts and, ultimately, great inefficiencies.

To avoid dysfunction, decision-making systems must be set up to [govern the natural conflicts](#) that arise around priorities and resources. Without this, no simple fix will resolve the issue of competing priorities.

Simple organizational design addresses this issue by implementing governance to ensure all areas of the business have input into the direction and leadership of the business.



## Misdiagnosed Symptom: Unwanted turnover

**Real Design Challenge:** Bad role design

Here's the thing, widespread turnover is rarely the real problem. It's prompted by something, and it's usually poor role design. While many people claim money and perks are their main motivators, the truth is [people rarely stay in positions](#) where they feel smothered, stuck, overworked, or unrecognized.

Poor role design, which often arises over time, leaves some people stretched beyond their bandwidth while others are stuck with boring roles that leave them feeling underappreciated.

Quality roles are designed around desired outcomes, not people. Effective design defines the value of a role by its impact on competitive performance. Each role should be defined by the competencies needed to deliver a set of defined metrics to the business. When people are appointed to roles on this basis, they are far more likely to engage with (and stay in) their roles.



## Misdiagnosed Symptom: Inaccessible bosses

**Real Design Challenge:** Excessive spans of control

At some point, everybody has had a boss they could never get hold of. When this happens on a wide scale, the lack of direction can be disastrous. Businesses often wrongly assume it comes down to poor time management or a lack of effort.

In reality, this issue usually goes far deeper than individual leadership practices. Usually, the underlying issue is managers and leaders who have too many direct reports. This leaves insufficient time to build strong relationships with each team member, or even provide basic direction.

For teams to run effectively, the number of direct reports to each leader must be based on two factors: the type of work and the amount of coordination that work requires.

- ➔ Complex or high-risk work — e.g., scientists running clinical drug trials — requires extensive coordination and benefits from a narrow span of control.
- ➔ Standard, more repetitive work — e.g., engineers writing technical code — is suited to more autonomous employees, allowing for a wider span of control.





## **Misdiagnosed Symptom:** Cross-functional rivalry

**Real Design Challenge:** Misaligned incentives or metrics

It's easy to assume some departments will 'never get along'. Sales and marketing are common culprits. However, beneath these conflicts, you'll often find misaligned metrics or incentives that *encourage* rivalry.

Misaligned metrics pull teams in different directions towards conflicting goals. Over time, the resentment that builds up can lead to poisonous behaviors and a lack of cooperation.

To solve this, engage conflicting teams in the creation of more appropriate metrics and incentives, keeping in mind the ultimate goal of supporting the business' wider objectives.

## **Redesign Your Organization For Success**

Your employees are asked to devote a significant proportion of their life to their work. That work *should* be to better your business' ability to compete and win as you serve your customers. And along the way, your employees should be deeply gratified by knowing their work makes a difference.

For that to be possible your business must do two things:

1. Funnel every employee's passion and hard work into better customer outcomes; and,
2. Reward employees for engaging with their jobs and bringing the best they have.

Ensuring both of these organizational design elements are met requires clear and deliberate planning.

To find out more about how Navalent can help you assess, redesign, and regenerate your business to focus on its core purpose, [visit here](#).