

1

Structured Networks

Probably the most seductive image of the organization of the future is the self-managed network. It conjures up visions of many highly motivated units, each with a focused expertise, interacting in a creative, bureaucracy-free and cohesive manner. Hierarchy and internal politics are at a minimum. The organization operates like a market, but is more effective than a market due to a set of relationships, ties, commitments, and shared intent that make it a purposeful entity.

This image is seductive because it contrasts so vividly with many of today's complex corporate organizations. These organizations impede decision-making with their ambiguity, kill creativity with their rules and procedures, and sap energy through the heavy hand of hierarchy. Managers know that there has to be a better way; but they do not know how to design it. In companies with extensive and complicated interdependencies between product units, market units, geographical units, functional units, and project units, the simplicity of the self-managed network seems out of reach.

What is more, managers find the whole process of organization design difficult and frustrating. They are overwhelmed by the number of variables they have to consider. They are confused by the advice available from consultants and academics, much of which they find impractical, irrelevant to their concerns, or contradictory. They are constrained to use vague concepts such as "matrix" structures or "dotted-line" relation-

ships because they lack a precise language for specifying the organizations they want to create. And, when it comes to choosing a design, they are unable to resist the influence of personalities and politics because they have no rigorous framework for selecting between alternatives.

This book sets out to provide practical help for managers confronting these difficulties. We have studied the corporate structures of a number of large, complex companies such as ABB, AstraZeneca, British Petroleum (BP), Citigroup, Dow, General Electric (GE), IBM, Mars, Monsanto, Motorola, Philips, Shell, and Unilever, and several smaller, but no less complex, organizations in sectors such as professional services, speciality chemicals, and e-commerce. We have also undertaken consultancy projects for many clients with organization design issues, and we have reviewed the work of leading organization design experts and consultants. From the research, we have developed a new approach to organization design. Our approach not only provides the tools for rigorous decision-making, it also helps managers to create the network-like organizations that they desire. These organizations balance self-management with structure.

Our approach to corporate organization design includes three components:

1. First, we propose nine tests of good design. The tests, which can be applied to any proposed design, highlight weaknesses in design options. They can be used to identify refinements that will overcome the weaknesses, or to rule out seriously flawed options.
2. Second, we provide a language in the form of a taxonomy of different kinds of unit roles and relationships. The taxonomy helps managers to describe and discuss different design options with more clarity. It also helps them develop radical alternatives.
3. Third, we suggest a process that managers can follow when they are facing a design challenge. The process, which builds on the tests and the taxonomy, provides managers with a rigorous but practical approach to organization design. It

also helps them to achieve the outcome they want – an organization with the maximum of self-management, but with sufficient structure and hierarchy to work well. We call this outcome a “structured network”.

A structured network has the features of a network – units that are largely self-managing, both in deciding how to achieve their objectives and in their relationships with other units – but sufficient structure, designed-in processes and hierarchy to insure that responsibilities and relationships are clear, that managers can collaborate successfully, and that corporate strategies can be implemented in a purposeful way. At the heart of our thinking is the idea of creating units that are self-managing on all matters except those where influence from the hierarchy or designed-in processes are needed to optimize the working of the network. Our goal is to help managers design organizations that are market-like in much of their behavior, but which are guided by sufficient structure to create more value than markets. Our work over the last 15 years on corporate centers has made us unusually sensitive to the potential that hierarchical structures have both to create and destroy value. A structured network is a design where the value creation potential is amplified and the value destruction potential is minimized.

In this introductory chapter, we will summarize our main messages and identify in which chapters of the book they are developed more fully. This should allow readers to focus their attention on those chapters that are of most interest to them.

Nine Design Tests

Which factors should guide the choice of organization design? (See box: Elements of Organization Design.) There are many informal managerial rules about things such as spans of control and reporting relationships. In addition, academics and consultants have produced a huge amount of work on organization design. But our research told us that managers still lack a practical and systematic framework to guide their organization

choices. An important purpose of this book has been to develop a usable framework for guiding organization design choices.

Less an intellectual triumph than a practical checklist for

Elements of Organization Design

Many factors shape the working of an organization. The formal structure, including the allocations of responsibilities to management units and the reporting relationships for these units, provides the basic skeleton. These are the “lines and boxes” of the typical organization chart. The processes and mechanisms through which the units relate to each other, both for hierarchical reporting purposes and for collaboration between sister units, represent the connective tissues. It is through these processes that the components of the organization work together. Then there are the people, the behaviors, the values, and the culture that bring the basic skeleton and its connective tissues to life. A complete organization design must deal with all these factors.

In this book, our emphasis will be on the skeleton and the connective tissues. It is the lines, the boxes, and, crucially, the desired relationships between units that the organization designer must first specify. Softer issues to do with people and corporate culture must be taken into account in the design, but are harder for the organization designer to shape and change. Thus, we will be primarily concerned with:

- responsibility allocation to units
- reporting and lateral relationships
- accountabilities for units
- key reporting and co-ordination processes.

Our advice on the design process will, however, suggest that the organization designer needs to convey intended behavior patterns in the key relationships in the design, and to think carefully about people, incentives, and cultural issues when selecting and finalizing a preferred design.

addressing the most important issues, our framework is grounded on some basic concepts. The first and most important, the fit concept, embraces four drivers of fit – product-market strategies, corporate strategies, people, and constraints. In addition, we have condensed previous ideas on optimal organization design into five good design principles: the specialization principle, the co-ordination principle, the knowledge and competence principle, the control and commitment principle, and the innovation and adaptation principle (Figure 1.1).

The principles are broad in nature and not always easy to convert into prescriptive guidance. They are more valuable in orienting managers than in resolving particular organizational dilemmas. However, as we worked with the principles, we found ways to convert them into some practical tests. Perhaps the most important contribution of this book lies in the insights and understandings that the tests produce. The tests match the fit drivers and the good design principles (see Figure 1.2).

The Fit Tests

One almost universally agreed proposition is that organizations need to be fit for purpose. Strategy, therefore, should be a key

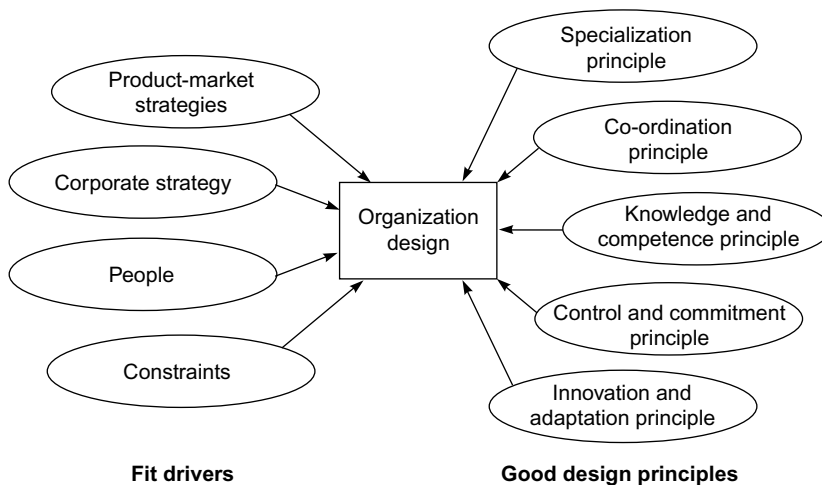


FIGURE 1.1 A Framework for Organization Design

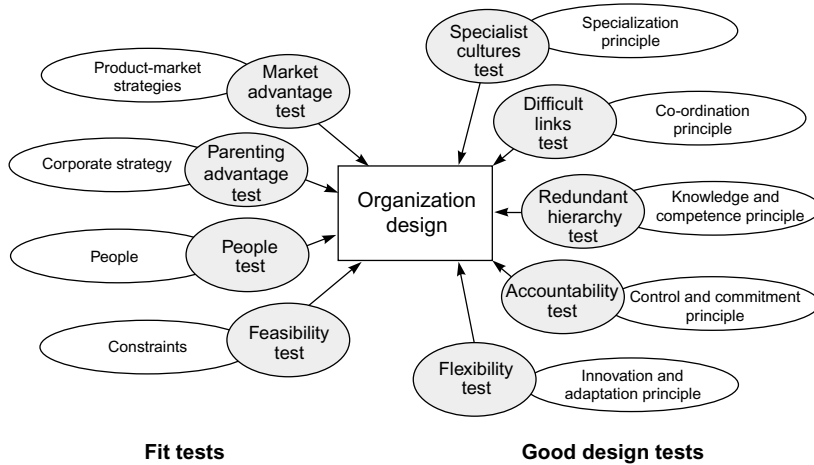


FIGURE 1.2 Nine Tests for Organization Design

driver of organization design, and we have found it useful to distinguish between product-market strategies and corporate-level strategy. But strategy is not the only driver of organizational design; at least as important are people. Many authorities counsel against designing an organization around people, preferring to build around the strategy and change the people if necessary. However, people cannot always be changed, and new ones with the required attitudes may be hard to find. So designs should take account of the people available to lead and work in them. Finally, organization design is subject to various constraints, ranging from laws laid down by governments to organizational capabilities or resources that are deeply imbedded. These four drivers of fit are described in detail in Chapter 2.

The fit drivers lead to four fit tests:

- *The market advantage test*: “Does the design allocate sufficient management attention to the operating priorities and intended sources of advantage in each product-market area?”
- *The parenting advantage test*: “Does the design allocate sufficient attention to the intended sources of added value and strategic initiatives of the corporate parent?”

- *The people test*: “Does the design adequately reflect the motivations, strengths, and weaknesses of the available people?”
- *The feasibility test*: “Does the design take account of the constraints that may make the proposal unworkable?”

The fit tests bring out the most important inputs that should guide organization design choices. Provided the design has been selected with these inputs in mind, there should be no problem in passing the fit tests. However, organization design choices are not always so rational. All too often, organizations evolve in ways that are not sufficiently related to the strategy of the company, or else pay scant attention to the limitations of managers who will fill key positions. In one company, we were told that the structure had always been primarily driven by the balance of power between the four barons who ran the main divisions, resulting in business unit groupings that had little to do with the opportunities in the markets being served. Under these circumstances, the organization will be a barrier to successful strategy implementation and will damage competitiveness. The fit tests insure that organizations which are evidently not fit for purpose will be exposed, and that more suitable alternatives will be adopted.

The Good Design Tests

While the four drivers of the fit principle are recognized by most managers, we believe that the good design principles and tests represent more of an advance. They synthesize the vast quantity of academic research and managerial experience about what makes an organization work well into a few basic tests that should guide any organization designer. We devote Chapter 3 to explaining the good design principles in detail.

The specialization principle and co-ordination principle both concern the boundaries between units. The specialization principle states that boundaries should exist to encourage the development of specialist skills, whereas the co-ordination prin-

ciple emphasizes that activities which need to be co-ordinated should be located within a single unit.

Although these basic principles are clear, there are unfortunately often trade-offs between specialization and co-ordination. A broadly-based product structure may give economies in purchasing and manufacturing, but be detrimental to the development of specialist products for particular markets. A disaggregated geographical structure with many local units may support the special skills needed for different regions, but prevent effective co-ordination in product development or IT infrastructure. Organizational problems arise when there are trade-offs between different ways of grouping responsibilities. In order to help with these trade-offs, we have developed two tests, which give more precision to the principles and make them more practically useful.

- *The specialist cultures test*: “Do any ‘specialist cultures’, units with cultures that need to be different from sister units and the layers above, have sufficient protection from the influence of the dominant culture?”
- *The difficult links test*: “Does the organization design call for any ‘difficult links’, co-ordination benefits that will be hard to achieve on a networking basis, and does it include ‘solutions’ that will ease the difficulty?”

The specialist cultures test questions whether the required specialist skills will thrive only if the managers concerned are insulated from the influence of other parts of the organization. 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 for the corporate parent to insure that the specialist culture receives sufficient protection by flexing corporate policies and procedures or by giving it certain powers. The test focuses attention on the dangers of suppressing or damaging activities that fall outside the mainstream corporate culture, dangers which are easy to overlook.

The difficult links test recognizes that many co-ordination benefits can be achieved through spontaneous networking between units, but that others will be more difficult. For example, best practice sharing can often be left to networking between units, whereas the establishment of common technical standards is unlikely without a corporate policy which makes them mandatory. Organization designers should focus only on the few co-ordination benefits that will be difficult: where networking will not deliver the benefits. For these difficult links, it is necessary to develop appropriate co-ordination mechanisms or interventions to overcome the difficulty, or to readjust the design so that the co-ordination lies within the responsibility of a single unit. This test makes managers assess which co-ordination benefits will be difficult to achieve if left to the network, and to think through whether and how any difficulties can be overcome.

Together, the specialist cultures test and the difficult links test give managers a powerful means of assessing the trade-offs between the benefits that can be gained from co-ordination and from specialization. In the 1980s, IBM decided to set up its PC division as a 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, CEO of IBM, however, believed that the future for IBM lay in providing integrated customer solutions. He therefore kept the company together; but he recognized that co-ordination between separate product divisions was not proving a satisfactory means of offering integrated solutions, due to conflicting divisional priorities and incompatible technologies. He therefore gave authority to IBM's Sales and Distribution division and to a new unit, the Global Services division, to concentrate, respectively, on customer solutions and services, using both IBM and competitor products. These divisions have the power to offer a unified approach to

customers, and have dealt well with previously difficult links between IBM divisions. At the same time, Gerstner has encouraged new business activities, such as Business Innovation Services, IBM's e-business initiative, not to be bound by IBM's traditional policies and ways of doing things. IBM's structure now takes account of both the difficult links and the specialist cultures tests.

The difficult links and specialist cultures tests help managers to address the organization design issues faced by companies such as IBM, where there are evident advantages both from specialization and co-ordination. The tests identify the real trade-offs between co-ordination and specialization, and help managers to find ways of gaining the benefits of co-ordination without undermining the development of specialist skills.

The knowledge and competence principle is mainly concerned with delegation. It states that responsibilities should be allocated to the person or team best placed to assemble the relevant knowledge and competence at reasonable cost. The practical test that follows from the principle is:

- *The redundant hierarchy test*: "Are all levels in the hierarchy and all responsibilities retained by higher levels based on a knowledge and competence advantage?"

This test is based on the premise that the default option should be to decentralize to operating units, only retaining responsibilities at higher levels if there is a knowledge and competence rationale. As we have argued in previous work,¹ hierarchy can only be justified if it adds some value to the functioning of the organization. Questions about whether and how the hierarchy adds value have helped numerous companies to sharpen their thinking about the design of their headquarters, group, and division levels. The redundant hierarchy test is a way of formalizing these questions.

The control and commitment principle concerns two challenges that arise in any decentralized organization: how to maintain appropriate control and how to insure high levels of motivation. Units should feel strong pressures to self-correct if

they are failing to deliver, and parent-level managers to whom the units report should be able to identify problems easily and promptly. This leads to a further test:

- *The accountability test:* “Does the design facilitate the creation of a control process for each unit that is appropriate to the unit’s responsibilities, economical to implement, and motivating for the managers in the unit?”

The accountability test makes managers focus on the pressures that exist for a unit to self-correct. These depend on 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 arm’s-length customer relationships and bottom-line performance measures are relatively easy to control and motivate. 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 unit managers demotivated and unclear about their performance objectives, and parent managers unable to control those who report to them. The accountability test helps managers to design units and establish performance measures that produce effective, low-cost controls that are highly motivating.

The innovation and adaptation principle states that structures should be designed to innovate and adapt as uncertainties become clarified and environments change. An organization design that is perfect for today is of little use if it cannot adapt to cope with the conditions of tomorrow. The principle yields our last test:

- *The flexibility test:* “Will the design help the development of new strategies and be flexible enough to adapt to future changes?”

The test recognizes that some structures allow for evolution and adaptation, whereas others build in rigidity and power bases that resist change. It insures that the designer considers the changes

that may be needed, and whether the design will be flexible enough to make them.

Using The Tests

The tests can be used to assess the relative merits of different possible designs. In Chapter 4, we discuss the trade-offs between the sort of simple, SBU-based structures adopted by BP, GE, and Hewlett-Packard and the more complex, interdependent structures of companies such as Citigroup, Monsanto, and ABB. Simple, SBU-based structures have several advantages, but their crucial disadvantage is that they do not fit well with multi-dimensional strategies. Companies whose strategies call for a focus on more than one dimension in order to achieve competitive advantage are likely to need more complex, interdependent structures. We also identify the management challenges typically faced in both simple and complex structures. These challenges influenced the way in which we have formulated our good design tests. The tests therefore help to bring out the advantages and disadvantages of different sorts of structures.

The purpose of the tests is to raise issues. Some can be addressed by refining the structure, by designing process solutions, or by appointing different managers. A key benefit of 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, for example a geographic region or a product group, without specifying what responsibilities should be retained by this layer and why. The redundant hierarchy test helps to highlight this design weakness, alerting managers to the need either to eliminate the layer or to define the responsibilities, skills, management processes, and leadership style that are needed to make the layer a positive influence on performance.

Some issues raised by the tests point to unavoidable trade-offs: "Do we lose more from under-attending to product or from under-attending to geography?" 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 competing interests. By pointing out the trade-offs and weak points in a chosen design, the tests help managers consider in greater depth problems that may occur and future changes that may be needed. The tests also help managers to weigh the pros and cons of different designs and provide a rigorous analytical structure for making design choices.

A Language for Describing Organization Designs

One of the findings from our research was that managers lack a language for describing organization designs. For example, the words used for describing different kinds of units are often ambiguous. The term “business unit” is used universally, but means different things in different companies. Sometimes it refers to a highly autonomous, largely self-contained profit center. In other situations, it is used for units that are much less autonomous, drawing on resources that are shared with other units and accepting the authority of upper levels of management on many key decisions. There is similar ambiguity in terms such as “product group”, “division”, and “national operating company”. This lack of clear language leads to confusion and cross-purposes when managers talk about their organization designs. The problem is particularly acute when managers talk about “matrix” structures, which can mean very different things in different companies.

What is more, a key challenge in organization design is to find a means of defining units in a way that clearly conveys the intentions behind the design. Managers need clarity about what they are supposed to be achieving, in order to provide a context for decentralized, self-managed decisions about specific issues. But manuals that spell out responsibilities in great detail lead to bureaucracy, rigidity, and lack of initiative. Organization designers have faced a difficult choice between too little clarity and too much detail. Our solution is a taxonomy of unit roles that provides a means of describing design intentions, but

without excessive detail. By providing a more precise language to express organization design intentions, the taxonomy helps managers to design network organizations where managers are clear about what they should be doing, but not hemmed in with detailed instructions, job descriptions, and rules.

The taxonomy sticks as closely as possible to common usage, but proposes some new terms and gives more precise definitions of others. It embraces eight different unit types:

- *Business units*: market-focused, profit-responsible units with relatively high decision-making autonomy;
- *Business functions*: operating functions, such as manufacturing or sales, that report to a business unit general manager;
- *Overlay units*: market-focused units serving segments defined along dimensions that cut across the business units;
- *Sub-businesses*: market-focused units that serve segments defined at a more disaggregated level than the business units;
- *Core resource units*: units that develop and nurture scarce resources, such as R&D, that are key to competitive advantage for several business units;
- *Shared service units*: units which provide services that are needed by several other units in the company;
- *Project units*: units which carry out tasks or projects that cut across other units, normally for a finite time period; and
- *Parent units*: upper-level units that carry out obligatory corporate tasks, and influence and add value to other units.

Each of these unit types has a different role, with implications for its broad responsibilities, reporting relationships, lateral relationships, and main accountabilities. The differences in unit roles are summarized in Table 1.1, and described in detail in Chapter 5.

The taxonomy of unit roles gives a useful shorthand for communicating about the nature of a unit's intended responsibilities. In Citibank's corporate banking group, for example, there is a complex, interdependent structure, involving customer units, product units, geographical units, and shared infrastructure

TABLE 1.1 A Taxonomy of Unit Roles

<i>Type of unit</i>		<i>Type of responsibility</i>	<i>Relationships</i>		<i>Main accountabilities</i>
			<i>Reporting</i>	<i>Lateral</i>	
Parent	●	Obligatory and added-value parenting	Board/parent	Mutual self-interest	Corporate bottom line
Core resource unit	⚙️	Resource-focused	Hands-on parent/unit	Resource owner/user	Resource development and utilization
Shared service unit	⇐⇒	Service-focused	Parent/unit	Service provider/client	Service cost-effectiveness
Project unit	○	Project-focused	Parent/unit	Pressure group/principal	Project delivery
Overlay unit	⇐⇒	Market-focused (cut-across)	Parent/unit	Pressure group/principal	Effectiveness in serving target segments
Business unit	▨	Market-focused	Parent/unit	Mutual self-interest	Bottom line (strong)
Sub-business	□	Market-focused (disaggregated)	General manager/unit	Quasi-team	Bottom line
Business function	⋈	Functional	General manager/function	Team	Functional effectiveness and contribution

units. It is possible to make the intended working of this structure clearer, by recognizing that, in terms of our taxonomy, the customer units and the product units are supposed to act as “business units”, whereas the geographical units are “overlay units” and the infrastructure units are “shared service units”. Equally, in many companies, corporate staff departments such as Human Resources and IT are supposed to play a variety of roles. Some staff may be providing a shared service to other units, while others are acting as a core resource, and yet others are assisting the parent. The implications for how these staffs should discharge their responsibilities and relate to other units are very different according to the role they are meant to be playing. Organization designers who were previously failing to make clear

their intentions, or struggling to avoid becoming over-involved in too much detail, have found the taxonomy highly valuable.

We have also devised a new type of organization chart, which uses different symbols to give a visual impression of the differences between units and gets away from the traditional hierarchical lines and boxes format (see Figure 1.3).

We believe that the taxonomy provides a simple but powerful means of specifying the vast majority of design concepts that organization designers want to create. An understanding of a unit's role gives essential guidance to unit managers on how to approach specific decisions in accordance with design intentions. For some issues, which will be identified by the tests, it may be necessary to supplement the roles with more detailed responsibility definitions, process maps, and policies. But the roles provide sufficient information for managers to take most decisions on a decentralized basis and to handle most co-ordination through self-managed networking.

We have found the taxonomy very helpful in understanding existing designs, creating new design options, and communicating with managers about the intentions behind different options. It also helps with implementation. Once a management team has been told, for example, that its role is as a shared service unit, the team has much of the information it needs to start work, including how to interact with customer units, what targets to focus on, and what reporting processes to expect with its boss. The taxonomy therefore plays a vital part in the design process we propose.

The Design Process

Most managers find organization design decisions difficult. They recognize that there are no right answers, and that much depends on complicated trade-offs between different possible groupings, processes, and relationships. They also know that people and behaviors matter as much as strategy and logic. They are aware, too, that organization change can be a highly political process, dominated by personalities and power plays. Managers

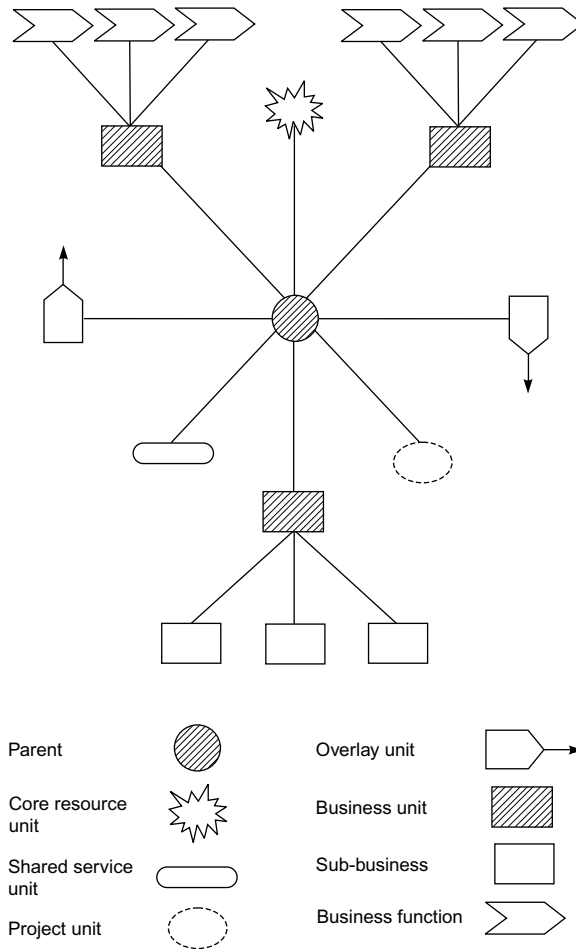


FIGURE 1.3 A New Display Bringing Out Different Roles

can sense when the organization is not working well, but they have little confidence in the outcome of most organization redesign processes.

In addition, most academics and consultants have had little to offer in terms of practical, user-friendly advice. Indeed, a professor at a leading US business school told us that the school had now stopped teaching organization design “because we didn’t think we had anything useful to say”. The consultants have relied largely on common sense and role models drawn from the

successful organization of the moment. They have profited from successive changes in organizational fashions, but have not based their advice on clear and well-grounded principles. Moreover, process re-engineering, the most popular consulting product of the 1990s, is much better at addressing detailed design issues than at getting the overall enterprise architecture right.

As a result, few companies approach organization issues in a systematic manner. When we asked companies why they had chosen their current organization, they were usually able to explain *how* it had come about, but could seldom provide a strong logic for *why*. Whereas good chief executives can almost always provide a clear rationale for their companies' strategies, they are much less articulate when it comes to justifying their structures. They have lacked a rigorous framework and process of analysis for developing and choosing between organization options. One of the main objectives of this book is to fill that void.

Our proposed design process is shown in Figure 1.4. It has three essential steps that must be addressed:

- one or more proposed designs or design concepts need to be developed;
- the preferred option or options need to be tested and refined;
- the chosen design then needs to be finalized to aid communication and implementation.

Creating and Selecting Design Concepts

A design concept is not a full organization design. It consists of the boxes (the units), the lines (who the units report to) and, most important, the unit roles (their broad responsibilities and accountabilities, as well as guidance on their lateral and vertical relationships). It does not contain all the processes and coordination mechanisms that will be needed in the final design. These are added in the next two steps in the process.

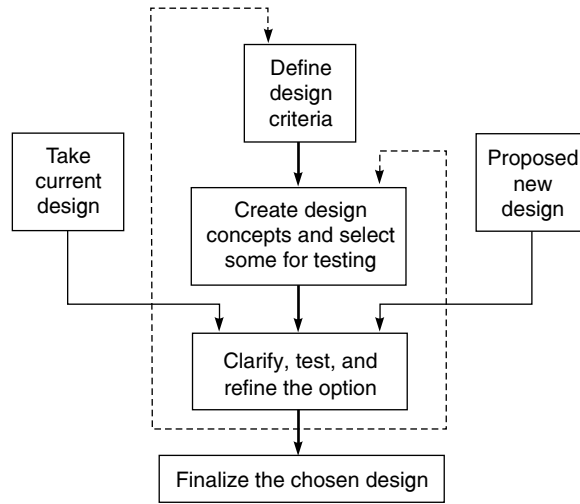


FIGURE 1.4 Making Design Decisions

We believe that it is important to develop a range of different design concept options. Frequently, managers do not consider enough alternatives before making their choice, in part because they do not have the language with which to articulate subtle differences between options. Fortunately, the taxonomy is a powerful tool for generating and articulating different options. New options can be generated by changing the roles of different units. For example, an overlay unit can be converted into a business unit or a shared service unit can become a core resource unit.

To advance to the next step, managers need to choose one or two promising design concepts from the range of options that have been developed. This need not be time consuming. Since any poor judgments will be flushed out when the tests are applied, options can be created and selected in an atmosphere of exploration and experimentation. Managers do not need to agonize about their choices. The next step – testing – will show any weaknesses in the preferred option. For this reason, managers often take the current design or some proposed alternative as their starting point.

Clarifying, Testing, and Refining the Option

Before an option can be tested, it needs to be sufficiently clearly specified. Here the roles taxonomy is essential. Each unit needs a role label. Too often, a proposal is vague about whether, for example, a proposed new customer-facing unit is a business unit, an overlay, or a project unit.

Once the option is clear, it should be put through the tests (see Figure 1.2). The tests are at the heart of our suggested process. We recommend that managers apply the fit tests first, since these tests often identify factors that cause an option to be rejected. Identifying these factors early prevents unnecessary analysis.

The good design tests should follow the fit tests because their value is more to do with helping managers refine and embellish the design concept. The good design tests can result in knock-out factors; but, more normally, processes, mechanisms, or other adjustments can be developed so that issues raised by the tests are resolved. For example, the difficult links test may show that an important co-ordination benefit, such as consistent pricing across national markets, is unlikely to be achieved through networking between nationally focused business units. To insure consistent pricing, a co-ordination mechanism needs to be designed. This might involve a process for bringing the business units together to agree pricing structures, and allowing a corporate-level marketing executive to arbitrate where disagreements arise. The nature of the difficulty should determine the details of the co-ordination solution proposed.

Each issue raised by a good design test normally leads to adjustments that refine and embellish the design concept. Once all the refinements have been added, the design should have just enough structure and process to achieve the appropriate balance between self-management and bureaucracy. The tests, therefore, are not only about judging whether the option will work. They are about helping the designer make the additions, adjustments, and refinements that will turn a design concept into a workable organization.

The danger here is to over- or under-design: creating an

inflexible organization or promoting conflict and confusion. Sufficient, but not too much, structure needs to be provided: sufficient to pass the tests, but not so much that managers feel cramped and constrained. In our experience, organization designers normally start by designing too little. They assume that “we will work it out as we go along”, and then, with hindsight, wish that they had spent more time laying out some of the details. Frequently they then flip to the other extreme and design too much. No more structure should be provided than is necessary to pass the tests. Managers should avoid designing those processes and links that can be resolved without top-down input, which are much better left to the participants to work out for themselves.

“Clarify, test, and refine the option” is the pivotal step in our design process (Figure 1.4). It is at this point that a design is challenged and stress-tested. It is also at this point that creativity is often needed to find suitable refinements to the design concept. It is at this point that cross-unit co-ordination processes, top-down policies, behavior norms, and guidance about people decisions are defined. Frequently a problem that emerges from the tests can be completely or partially solved by finding the right mechanism or adjustment. Managers should allocate plenty of time to the testing and refining step.

Communicating the Design

Once an option has been tested, refined, and chosen, the design process is almost complete. However, there is still some work to do. People need to be assigned to the main jobs and the design scanned for clarity. This involves examining each unit, deciding how the top team will be chosen if it is not already in place, and assessing whether the team has enough guidance to start operating.

The key question in this step is about communication. “Are the role definitions, policies, processes, and mechanisms described in a way that will allow unit managers to start work without further guidance?” The temptation in this step is to provide

additional detail rather than more powerful communication. The previous step should have resulted in “just enough” design. This step is about helping managers understand what is intended. The roles taxonomy is a useful communication language, but will probably need to be supplemented with process maps and responsibility grids, in order to convey the detailed refinements that have emerged from the tests. If this is necessary, care needs to be taken that the process of articulation does not involve imposing more structure than was intended.

In Chapter 7, we provide an overview of the design process. In Chapter 8, we give a full description of the tests, which are the core around which we have built the process, and of the analyses needed to support them. In Chapter 9, we illustrate the process with a detailed example.

Challenges for Parent Managers

Much of our previous work has focused on the role and justification for the management levels in the corporate hierarchy outside and above the business units. We call these management levels the “corporate parent”. Parent managers must discharge certain obligatory or minimum tasks, concerned with due diligence on behalf of shareholders and compliance with relevant legislation and regulations. But their most essential responsibility is to add value. Parent managers need to have a clear added-value rationale for their activities.

In today’s complex, interdependent organizations, parent managers face many challenges. They retain or share more responsibilities, are more involved in guiding co-ordination between units, and need to use more complicated and sophisticated performance measures for purposes of control and accountability. Parent managers also have a vital role in creating and maintaining the organizational context in which self-managed networking will thrive. This means establishing clarity in unit roles, being willing to exercise authority when necessary to protect specialist cultures and facilitate difficult links, arbitrating disputes, and encouraging a co-operative, networking culture.

Paradoxically, in order to facilitate networking they often need to play a more hands-on role. With a hands-on parent, the distinction between “business unit” responsibilities and “parent” responsibilities becomes less clear-cut.

In large companies, the parent can include several levels of management, such as groups or divisions, as well as the corporate headquarters. The lower levels of “intermediate” parenting often play a hands-on role, leaving the corporate level to concentrate on obligatory compliance and due diligence tasks, together with a few corporate-wide value-added themes. Parent managers, at both corporate and intermediate levels, are supported by functional departments, in areas such as finance, human resources, marketing, and IT. But these departments sometimes also act as core resource and shared service units, and can undertake tasks that overlap with overlay and project units. Moreover, lead business units can take on some of the responsibilities that would otherwise be performed by the functional departments in the parent. In these structures, the distinction between “the parent” and “the operating units” becomes blurred, and parenting responsibilities are distributed more widely through the organization.

Nevertheless, we believe that it is still important to assess whether and how the parent is adding value. Both the parenting advantage test and the redundant hierarchy test are powerful disciplines for assessing complex design options. With a hands-on parent, playing a more integral role in the organization, upper level managers must be clear about their responsibilities and must have the skills to create as much value as possible. Even if the parent is committed to decentralization, its role in creating the conditions for successful self-managed networking is critical. Value-added parenting is an essential component of a structured network.

In Chapter 6, we provide a full discussion of the role of the parent in complex, interdependent structures.

A New Approach to Organization Design

Our approach to organization design builds on and is compatible

with many of the ideas that are emerging about twenty-first century organizations. In Chapter 10, we describe some of these ideas, and show how the concept of the network organization runs through all of them. However, we believe that our approach incorporates several distinctive features that challenge current practices and conventional wisdom.

First, we reject the cynical view that organization design will inevitably be an *ad hoc* process, paying more attention to personalities and power politics than to sound principles and logic. We believe that most managers are keen to adopt a more reasoned approach to organization design, but have been let down by the lack of practical frameworks available. Our framework has been designed around sound underlying principles and leads to a sharply practical suite of tests that bring out the merits of different design options. Armed with the tests, no manager should lack the tools for making principled organizational judgments.

Second, we do not believe that good organization design emerges from a welter of detailed process re-engineering, decision grids, and job descriptions. Senior managers must have a means of standing back and reviewing the overall organization design; they must avoid the trap of being unable to see the wood for the trees. Lower-level managers must have the discretion to fill in the details of their responsibilities as they see fit, rather than being constrained by highly detailed process maps and responsibility manuals. Our approach to enterprise design, using the taxonomy of roles and relationships, provides a means of clarifying design intentions and exploring design options without descending into excessive detail.

Third, we emphasize the value of self-managed networking as the normal way to achieve co-ordination between units. We do not believe that good organization design should call for an extensive use of co-ordination mechanisms. Rather, co-ordination mechanisms should only be designed in if, for some reason, self-managed networking seems likely to fail. What is more, the mechanism chosen should be selected to address the cause of the network failure. For example, there are many co-ordination

mechanisms that can be used to share best practices, such as task forces, staff experts, policy manuals, e-mail interest groups, and even a word of advice from the boss. Normally, however, self-managed networking should be sufficient for best practice sharing between commercially motivated units with clear roles. But if the units have insufficient specialist expertise in a specific area, so that networking is unlikely to be a success, there may be a role for a corporate staff expert. The mechanism should only be designed as a response to an identified “difficult links” problem. We regard the default option as self-managed networking, and prefer to design in as few co-ordination mechanisms as possible.

Finally, we see the parent’s role in complex network structures as vital. The idea that networks can thrive with no input from upper levels of management is wrong; the centerless corporation is a mirage, not a realistic objective. We fully endorse the elimination of redundant hierarchy, but we see the parent’s authority and influence as integral to facilitating the network and enabling linkages that would not be possible through self-managed networking.

In summary, therefore, we acknowledge corporate politics, but believe that organization designs can and should be based primarily on logic and principles. We emphasize clarity of design intentions, but propose a means of achieving it that is not built up from excessive detail. We recognize that some co-ordination processes need to be built into the design, but prefer to leave as much as possible to the network. We are keen to decentralize, but see an essential role for the parent in facilitating and nurturing the decentralized network.

As one manager commented: “I like what you are saying. But it took time for me to get my mind around it, because you are coming at the issues from such a different angle.” We are aware that we are putting forward a different way of thinking about organizational design, but we believe that it results in a more powerful and rigorous approach than has previously been available, an approach that provides the key to designing structured networks – organizations with enough, but not too much, structure.

