

# **Designing Organizations**

**An Executive Briefing on  
Strategy, Structure,  
and Process**



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# Preface

This book began with a request from Warren Bennis that I do a piece on organizational design for an executive briefing series he was putting together. The book was conceived as an update on current events in organizations to help businesspeople choose organizational designs for their companies. The idea was that a manager would buy the book at LAX and be finished reading it upon landing in New York. As it turned out, the book was not completed as a part of that series. But since the idea was a good one I went ahead with the project anyway and the original vision remains the same.

My experience teaching executive programs and courses in strategy taught me that a short book on organizational design would be useful. I was also ready to update my written work on the subject. This book is intended to satisfy all these objectives. It turned out that I had more to say than planned, however. It may still be completed in one sitting, but the flight would have to go in the opposite direction—from New York to Los Angeles—and experience the normal delays at JFK.

*Designing Organizations* attempts to capture the best thinking about organizing in today's companies. It offers the time-tested knowledge that has been accumulated through experience, as well as the current trends and innovative designs. It presents new ideas—like the virtual corporation, process organization, lateral organization, front/back models—as tools to be used in combination with

the old standbys, which include functional structures and profit centers. The book is intended to provide a contrast to the oversell that often accompanies popular ideas. Sometimes the hype diminishes the usefulness of new ideas by turning them into fads. This book portrays the new ideas as useful but limited tools that ought to be understood and kept in every manager's toolbox, to be taken out and used when appropriate. It also tries to suggest the appropriate conditions for using them. *Designing Organizations* is aimed at managers who choose the organizational designs for their companies. It also contains guidance for the internal and external consultants who help managers with their designs.

Chapter One examines the forces that are shaping today's organizations. These forces are raising organizational design's priority on management's list. In Chapter Two I present the organizational design framework in the form of the star model. The model identifies the design policies that managers can control and that will affect employee behavior.

Chapter Three looks at organizational structure. It describes the structures that are increasing in popularity, including process and customer structures. In Chapters Four and Five I discuss the lateral processes, which are management processes that cut across the structure. They give organizations a multidimensional aspect and the ability to be responsive to products, customers, functions, geographies, and work flow processes. Both chapters go beyond relatively simple design issues such as forming teams to discuss different types and amounts of lateral coordination. The structures and processes discussed in Chapters Three, Four, and Five are at the heart of organizational design.

Chapter Six presents three emerging organizational designs: the functional integrator model, the distributed organization, and the front/back model. The latter is a hybrid structure that uses both markets and customers as the "front" and products and services as the "back." This book offers the only complete description of this model on the market today. In Chapters Seven and Eight I examine another popular design model, the virtual corporation. The

virtual corporation is a term for a collection of independent companies, all of which coordinate their behavior and act as if they are virtually a single corporation. Chapter Seven describes this model and its design choices and Chapter Eight explains the role of those firms that exercise leadership in integrating the network that makes up the virtual corporation.

Chapter Nine completes this distillation of organizational design concepts by describing the design process and explaining how to undertake it.

In these days of frequent and rapid change, skill in designing and changing organizations is a significant advantage. This advantage is highlighted throughout the book. To achieve an edge from organizational design, management must be able to create complex designs and oversee them. Simple designs offer no advantage and are easily copied. Yet simple designs are popular.

In my view, organizational designs should make it simple for the customer to do business with the organization. Designs should also make it easy for employees with customer and product contact to execute their roles. But if we create designs that make it simple for customers and employees, we tend to create designs that are complex for management. However, that is where the complexity *should* be located. Those leaders who are able to manage complex organizations will attain competitive advantages that are very hard to copy.

It is my goal to make this blend of accumulated knowledge and new ideas easily accessible to leaders who design organizations. My association with Ed Lawler at the Center for Effective Organizations at the University of Southern California was beneficial in developing this blend. Explaining these concepts to Sasha, my wife and businesswoman, helped me make these ideas more useful; her low tolerance for academic nonsense helped immeasurably. My hope is that the reader will be helped, too.

*Lausanne, Switzerland*  
*February 1995*

Jay R. Galbraith

# The Author

**Jay R. Galbraith** is a visiting faculty member at the International Institute for Management Development in Lausanne, Switzerland. He is currently on a leave of absence from the University of Southern California, where he is professor of management and organization and a senior research scientist at the Center for Effective Organizations. He received his Ch.E. degree (1962) from the University of Cincinnati in chemical engineering, and his M.B.A. (1964) and D.B.A. (1966) degrees from Indiana University.

His principal areas of research are organizational design; change and development; strategy and organization at the corporate, business unit, and international levels of analysis; and international partnering arrangements including joint ventures and virtual organizations. Galbraith has considerable consulting experience in the United States, Europe, Asia, and South America. He recently worked with Institut Pendidikan dan Pembinaan Manajemen in Jakarta, Indonesia, on a study of the formation and development of joint ventures between Indonesian firms and other Asian firms and Western firms.

Galbraith's book *Competing with Flexible Lateral Organizations* (1994) explores management through less hierarchical team structures. His other books include *Organizing for the Future* (Jossey-Bass, 1993, with E. E. Lawler and Associates), a compilation of ten years

of research done by the Center for Effective Organizations, and *Strategy Implementation: The Role of Structure and Process* (1986, with R. Kazanjian). Galbraith has written numerous articles for professional journals including *Organization Dynamics* and *Human Resource Management*. Prior to joining the faculty at USC, he directed his own management consulting firm. He has previously been on the faculty of the Wharton School at the University of Pennsylvania and the Sloan School of Management at MIT.



# Contents

Figures and Exhibits	xi
Preface	xv
The Author	xix
1. Introduction: Four Immutable Forces Shaping Today's Organizations	1
<b><i>Part One: A Framework for Organizational Design</i></b>	
2. Choosing an Effective Design	11
3. Matching Strategy and Structure	19
4. Linking Processes to Coordination Needs	41
5. Creating and Integrating Group Processes	57
<b><i>Part Two: Pathways to New Organizational Forms</i></b>	
6. Using Design as an Evolutionary Change Agent	77
7. Creating a Virtual Corporation	101
8. Leading and Integrating a Networked Organization	119
9. Organizing the Continuous Design Process	131

X CONTENTS

References	159
Index	161

# Figures and Exhibits

## *Chapter 1*

Figure 1.1	Percentage of Gross Domestic Product Invested in Research and Development in Developed Countries	2
------------	--	---

## *Chapter 2*

Figure 2.1	The Star Model	12
Figure 2.2	Vertical Processes	14
Figure 2.3	Lateral Processes	15
Figure 2.4	How Organizational Design Affects Behavior	17

## *Chapter 3*

Figure 3.1	Trends in Organizational Shapes	22
Figure 3.2	Functional Organization Structure	25
Figure 3.3	Apple Before and After Reorganization	27
Figure 3.4	Product Structure	28
Figure 3.5	Hybrid Product and Function Structure	29
Figure 3.6	Process Organization Structure	35

**Chapter 4**

Figure 4.1	Lateral Processes Across Departments	42
Figure 4.2	Work Flows Across Functional Structure	43
Figure 4.3	Types of Lateral Processes	47
Figure 4.4	Matching Coordination Needs with Lateral Processes	49
Figure 4.5	Technology Networks to Coordination	53
Figure 4.6	Mirror Image Functional Structure	54

**Chapter 5**

Figure 5.1	Teams to Manage Order Fulfillment	63
Figure 5.2	Product and Component Team Combination	65
Figure 5.3	Product Manager Variations	69
Exhibit 5.1	Planning Matrix	71
Figure 5.4	Matrix Structure with Dual Authority	73

**Chapter 6**

Figure 6.1	Market Segments and Lateral Functions	78
Figure 6.2	The Headquarters Model	80
Figure 6.3	The Peer-to-Peer Model	82
Figure 6.4	Front/Back Structure for Financial Services	85
Figure 6.5	Front/Back Linkage Example: Regional Teams	90
Figure 6.6	Front/Back Linkage Example: Marketing Council	91
Figure 6.7	Linking Marketing Council to Top Management	94

Figure 6.8	Group Structure of a Consumer Products Company	95
Figure 6.9	Front-End Structure	96
<b>Chapter 7</b>		
Figure 7.1	Types of External Relationships and Coordination Requirements	107
Figure 7.2	Partnership Structure for Sourcing, Alliances, or Joint Ventures	113
Figure 7.3	The Operator Alliance Model	114
Figure 7.4	The Shared Alliance Model	115
Figure 7.5	The Autonomous Joint Venture Model	116
<b>Chapter 8</b>		
Figure 8.1	The Value Chain for the Auto Industry	120
Figure 8.2	The Value Chain for the Publishing Industry	125
Figure 8.3	The Value Chain for the Movie Industry	126
<b>Chapter 9</b>		
Figure 9.1	Continuous Organizational Design	132
Figure 9.2	The Preferred Design Process	134
Figure 9.3	The First Step in Choosing a Structure	136
Figure 9.4	The Decision Process for Single Line of Service Businesses	137
Figure 9.5	Geographical Structure	138
Figure 9.6	Hybrid Functional/Geographical Structure	139
Figure 9.7	Hybrid Functional/Geographical Structure with Functional Integrators and Teams	141

Figure 9.8	Hybrid Structure Plus Product Teams	142
Figure 9.9	Possible Single-Product Business Structures	143
Figure 9.10	Decision Process for Structure and Processes of Multiple Businesses	144
Exhibit 9.1	Responsibility Chart for a Financial Services Organization	146
Figure 9.11	Design Effectiveness	148
Figure 9.12	The Organizational Design Process	150

# 1

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## **Introduction: Four Immutable Forces Shaping Today's Organizations**

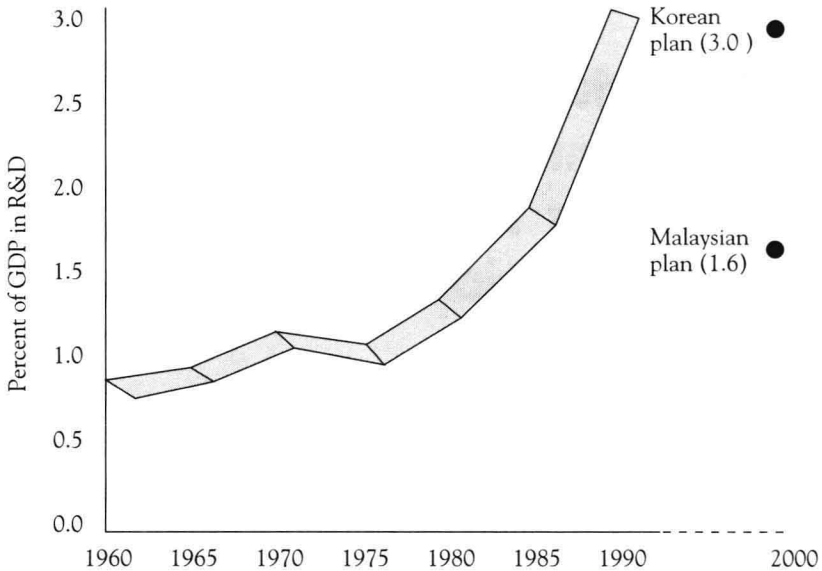
This book is about designing effective organizations. It emphasizes that design is a key task of the leader. It suggests that effective organizations are necessary for competitiveness and that they are a growing source for competitive advantage. The focus of the book is therefore on equipping leaders with the understanding and the tools necessary to create organizations that are superior to those of their competitors.

A few years ago, top managers were not interested in organization, let alone in acquiring a superior understanding of it or skill in its creation. Organization was perceived to be something about charts and job descriptions—necessary evils or bureaucratic activities. Then something happened that propelled organizing to the top of management's agenda. That something is illustrated by the graph shown in Figure 1.1.

The graph shows that most developed countries began investing more of their gross domestic product (GDP) in research and development (R&D). These countries were moving to higher value-added products, while developing countries adopted less sophisticated, higher labor-content products. This phenomenon continues today.

The increased investment in R&D has two implications. First, the companies in developed countries create value for customers

**FIGURE 1.1.** Percentage of Gross Domestic Product Invested in Research and Development in Developed Countries.



Source: Dertouzos, M. L., and Lester, R. K., 1989, p. 58; *Business Week*, June 1992.

by putting knowledge and design into their products. This “knowledge difference” can be illustrated by comparing the microprocessor with the dynamic random access memory (DRAM), both semiconductor products consisting of equal numbers of transistors on a chip. The DRAM, however, is a blank commodity chip awaiting information. The microprocessor, in contrast, contains sophisticated circuit designs and architectures to achieve unbelievably fast computations, and it sells for ten times the price of the commodity DRAM chip.

The circuit designs on the microprocessor represent the brains and energy of the engineers who created them. It is they who create value for customers in the new economy. So the assets of Intel and Motorola are actually the knowledge and energy of the engineers who create the designs. The ability of Intel and Motorola to compete in the new economy depends on their ability to attract,



retain, motivate, and coordinate talented engineers. In short, it depends on organization of the efforts of these engineers.

Second, the R&D investment raises the fixed costs of doing business. For many companies in many industries domestic demand is no longer sufficient to cover all of their fixed costs. These companies must seek additional demand outside their home countries. When a lot of companies expand into other countries the result is heightened global competition. Today, in addition to traditional domestic rivals—those that have survived—there are Japanese and European rivals. In the 1990s it is expected that multinationals from Korea, Taiwan, Malaysia, the ASEAN countries, and eventually China will also appear. These new competitors often play by different rules. They also give our customers more choices. As customers learn how to benefit from the greater range of choices, suppliers need to learn how to respond. As a response to this more knowledgeable, demanding customer, four shapers of today's—and tomorrow's—organizations have emerged.

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## **Organization Shapers**

The four organization shapers are the following:

1. Buyer power
2. Variety
3. Change
4. Speed

### **Buyer Power**

The new competition shifts power to the buyers, who know they are gaining power and learning how to use it. As a result, more organizational structures are being designed around customers or market segments. In addition, more initiatives are being