FREDRIK HELIN LOVINGSSON

ReOrganization

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Bengt Karlöf · Fredrik Helin Lövingsson

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With 22 Figures and 4 Tables

Springer

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Originally published in Swedish:
B. Karlöf, F. Helin Lövingsson: Om Organisation.
Svenska Förlaget, 2005.

Translated by Michael Parsley

Library of Congress Control Number: 2006939918

ISBN 978-3-540-33272-5 Springer Berlin Heidelberg New York

Springer is part of Springer Science+Business Media

springer.com

Production: LE-TEX Jelonek, Schmidt & Vöckler GbR, Leipzig
Cover-design: WMX Design GmbH, Heidelberg

SPIN 11732860 43/3100YL - 5 4 3 2 1 0 Printed on acid-free paper

Preface

First, a word about how the book came to be written. The authors had together completed a grueling project which resulted in the publication, in November 2004, of the book *The A-Z of Management Concepts and Models (Thorogood).* The book was based on an earlier one entitled Key Business Concepts and it attempted to define terms, while offering explanations and examples in this semantically difficult area.

Writing books with other people can be a somewhat traumatic experience. Planning cycles and time scales often vary from one person to another and this can create discord. So it was especially gratifying that Fredrik Helin Lövingsson and I were able to achieve our objectives in this comprehensive work.

One of the impulses for writing this book was therefore the very fact that we two had collaborated with some success on a previous project. The other, perhaps more important one, was our shared experience of the practical difficulties of organizing a business. We had seen the agonies that large companies went through as they tried to organize, as well as the resulting uncertainties and conflicts. For them organization had become the friction, not the facilitator, in their business processes. We had met middle managers in important positions who told us they were nonplussed about what was going on in their companies.

At about the same time, we were working with a public authority where the whole organization process appeared to be never ending. All the issues were present, including some delicate personal ones. The organization process here had become a goal in itself, a means to power of the managing director, a sort of rain dance that created more problems than it solved. Gone was a focus on an operating concept based on stakeholder needs.

Before we got down to writing the book we went through the available literature and realized that a practical guide for anyone faced with organizing a business was not to be had. Organization theory is dominated by sociologists and other behavioral scientists and the terminology can be esoteric, written for the initiated, so it can be difficult to come to grips with. There are brilliant exceptions, however. Bengt Abrahamsson and Jon Aarum Andersen's Organization – Describing and Understanding Organizations, 3rd Edition (*Organisation – att beskriva och förstå organisationer 3:e upplagan*) is one, if of a size that makes it difficult for practicing managers to use. This is something we have kept in mind. It's fine to sell the book, but we also want it to be read.

Books on organization have their foundations in the ideas of a number of theorists. Fayol, Weber, Karl Marx, Frederick Taylor, Chandler, Burns and Stalker, are some of the more important ones. Books of this kind deal with concepts such as line, staff, function, division, matrix, and the odd model or two, for example from the work of Henry Mintzberg.

Because every organization situation is unique, the reader should be familiar with a number of conceptual models and tools which can be of help when creating a theory for just his or her situation. We will be focusing on these while confining ourselves to the occasional aside on matters of history or theory.

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CHAPTER 1

Introduction

ReOrganization has been written primarily for practicing managers. As consultants and businessmen, as well as through the elaboration of certain methods, we have developed a sense of what is important in the work of shaping or redesigning an organization. This book will therefore be of interest to anyone on the point of realizing a development in their organization and wishing to know how this can best be accomplished.

There is a focus on organization design, i.e. on questions of structure, but in a book of this kind it is impossible not to look at aspects of infrastructure, such as culture, power, leadership, control and communication. To categorize these as "wet" questions and ascribe less importance to them would be to make an inexcusable mistake.

An organization's structure is sometimes made the scapegoat when things won't go right or the organization suffers from poor inter-personal relations. Some managers, probably because it is in their power to do so, can't seem to stop tinkering with it. Many organizational reviews are often due to inter-personal relations rather than the division of work, the company hierarchy, or the workflow.

We will thus be looking at some of the more intangible aspects of an organization's structure in addition to the more practical ones, like the production of goods and services. Since we will mainly be dealing with the organization of processes, we should declare at the outset that there is no organization theory on earth that covers everything. However, an astute observer can form a theory of optimal organization in any given situation. Our experience is that much organizational change goes ahead without taking into account certain important elements which otherwise could be beneficial to both the change itself and subsequent operations.

Readers of organization theory will have come across such concepts as line and staff, function organization, matrices, process orientation, project organization, and so on. A number of terms, such as flat organization, virtual organization and network organization, were very much in fashion at one time. Every so often a new theory of organization will appear which purports to show a connection with something but which often fails to show causality, that is, cause and effect.

Organization theory is a mixture of sociology, economics and psychology. For a number of years it was thought that flat organizations were the most efficient ones but later research showed that such claims could not be substantiated. Flattening the pyramid obviously has populist support, as power tends to be shared out. People are generally very receptive to ideas of this kind. The network solution, a close relation of virtual organization, where we freely and without obligation cooperate with others, appeals to our social needs. Networks have been very popular among certain groups at various times but their disadvantages, together with the long-term perspective, have been largely ignored.

We don't intend to delve very deeply into either traditional or modern organization theory. We give brief descriptions of traditional types of organization in chapter two in the interests of completeness and the book's value as a guide to shaping theories for specific situations, but it is to the approach in each case that we attach most importance.

Organization theory

Peter Drucker, writing on organization, points out that the word has become a part of our lives, for instance when someone says, "In our organization we should be market-friendly and customer-oriented." Nearly all forms of work in the societies of the developed countries are carried out by an organization of some kind.

At the same time, it's interesting to note that the word 'organization' was not in common currency anywhere until after World War II. The Concise Oxford Dictionary of 1950 does not even give the word in its present meaning. It is the management revolution that has made the concept of organization an integral part of modern life.

Unlike concepts such as 'family', 'society', or 'community', the word 'organization' has a special significance. Family and society are defined on the basis of its members, through culture, history, kinship, or location, but an organization is defined on the basis of its purpose. It is the business of a symphony orchestra to play music. It does not try to heal the sick. They leave that to hospitals, which do not try to put on Beethoven concerts.

According to Peter Drucker, an organization only works effectively if it concentrates on its purpose. Diversification and other forms of spreading attention and energy only serve to diminish performance. This holds for businesses, trade unions, schools, hospitals, or religious organizations. Organization should not be a goal in itself but a means of producing something. If the tools are there to improve its performance, the more specialized it is bound to become.

Classical beginnings

There is a classical theory of organization that is important to know, in that many of the factors involved are still relevant. The big difference today is that intelligence has been distributed in decentralized systems and the belief in authority has diminished, which to some extent has moved the goalposts. The Frenchman Henri Fayol was a leading figure among classical theorists. F.W. Mooney in the USA and Lynda Uric in England, were some of those who shared his views. The principles of classical organization theory can be summarized as follows:

1. Decisions should be unambiguous and consistent.
2. The decision chain is a one-way system going from superior to subordinate, never sideways or from below.

3. The control span should never be too large in an organization. In other words, a superior should be able to handle the group of reporting subordinates.
4. There is a division between staff and line. Staff give advisory information but do not interfere with the line's decision procedure.
5. Initiative should be fostered everywhere to encourage innovation.
6. Power and responsibility necessitate the giving of orders, obedience and a judicious balance between the two. People cannot be made responsible if they do not have authority.
7. Stability should be maintained through security of employment in order to promote productivity and competence development.
8. An organization will be more effective if work is divided so that it gets specialist attention.
9. *Esprit de corps* and identification with the firm are company strengths.
10. Individual interests are subordinate to the interests of the company, which speaks for collective coordination.
11. There should be a centralization of power so that personnel can be utilized optimally.
12. Discipline is important to obtain obedience and consistent behavior.

The above rules are also an expression of classical organization theory based on bureaucratic principles. They make for a carefully worked out hierarchical system of work, one controlled by well-defined decision procedures and communication paths.

The strength of the classical theory as applied today lies in its rationality, which was intended to produce the greatest possible efficiency. It has a mechanistic base and by and large takes little heed of individual abilities, feelings and ambitions. The principles of the classical theory have been fundamental to both decentralization and the delegation of responsibility, showing the way to greater autonomy in organizations. The division organization is an example of it, as was the German military machine during World War II that introduced decentralization to deal with difficult situations in battle where specific problems could not be foreseen.

Frederick Winslow Taylor (1856-1915), although he came to represent the mechanistic view of labor, was a nineteenth century trailblazer in management and organization theory whose influence should not be underestimated. Frederick Taylor proposed four rules of management, which can be summarized as follows:

1. Responsibility for the organization of labor should be shifted from the worker to the manager, who should be responsible for all intellectual work. Workers are substitutes for machines and are interchangeable. The individual, therefore, is not credited with special competence.
2. Empirical, scientific methods should be used to specify the most efficient way of carrying out work assignments.
3. Workers should be selected and trained, with productivity the only criteria.
4. Workers should be supervised so that working methods are adhered to. Individuals are not credited with self-motivation or an ability to think for themselves.

Frederick Taylor came in for heavy criticism, probably because he strove to separate thought from the execution of work. He is said to have exhorted his workers, “Don’t think! Other people are paid for doing that.”

Organization and theory

The term ‘organization theory’ consists of two elements: organization and theory. This book primarily deals with the organization part, including structure, dynamics, control parameters, and the building blocks to create optimal organization for a specific situation. But the theory part is too important to be left out completely.

Theory does not get a particularly good press. When managers think of the word 'theoretical', they tend to imagine something ethereal, complicated, abstract – which doesn't work. This is unfortunate, because a theory is a tool that tells us how to get the result we want, and why that is the result we get. Every purposeful action is based on some sort of theory. Like Monsieur Jourdain in Molière's *Le Bourgeois Gentilhomme*, who does not realize that he has been speaking prose all his life, managers do not realize that they are habitual users of theory.

Clayton Christensen and Michael Rainor comment on this situation in an article in the Harvard Business Review, "Why hard-nosed executives should care about management theory". One of the problems facing management, it's true, is that there are an awful lot of variables out there – and not a few useless concepts. The trouble is that a theory for one situation may not work for another, although the two situations may seem to be identical. This is especially true of organization work.

There are plenty of examples of the use of fashionable theories leading to catastrophe because they were not intended for the circumstances they were used for. Take Lucent Technologies, which at the end of the 1990s reorganized its three divisions into 11 "hot business areas". A theory said that every one of its business segments should be managed autonomously by internal entrepreneurs and go for growth. Lucent would then be nearer customer and market and reach new levels of profitability. This theory was very much in vogue at a time when decentralization, autonomy and a flatter organization had been beneficial to a number of large companies. It had also worked extremely well for start-ups. But reorganization had the effect of making Lucent less flexible and slower in its response to customer needs. Instead of reducing costs, costs went up. The fashionable theory failed because it was more appropriate to independent product and service areas, while Lucent's main customers were purely telecommunication operators who bought complex systems that had to be connected to work. This put too much pressure on the coordination of products and services; their managers had not anticipated this, and the results were catastrophic.

A good theory is valuable in many ways. First, it helps us to interpret the situation and understand what is happening and why. Second, it is an aid in anticipating developments. A good theory will be as dependable in its conclusions as the law of gravity, which predicts that if an object is released from your balcony on the sixth floor it will fall to the ground.

Managers have to learn to apply theory to situation but to do this they must first become intelligent consumers of management theory.

Building blocks of a theory

There are three good reasons for developing a theory:

1. To understand why something happens (correlation).
2. To categorize in order to predict (causality)
3. To study failure in order to understand when a theory does not apply.

Correlation analysis, roughly speaking the relationship between variables, is a much debated subject in some circles. Management theories may begin with a correlation analysis, but this is only the first step. The next step is to understand cause and effect. Not merely that A leads to B, but *why*. It is relatively easy to confuse causality with the correlation between attributes.

Science long ago observed the correlation between the ability to fly and the possession of feathers and wings. (This correlation was almost a perfect one, with the exception of the dodo, the ostrich, the hen, and one or two others). When human beings tried to follow "best practice" by attaching feathered wings onto their arms, then jumping from a great height and flapping them, the results were not encouraging. The correlation was clear and people had understood that flight was possible, but they had not understood why. An astonishing amount of management literature seems to confuse causality with correlation. In the belief that they will improve forecasting too, many management theorists have become fixated on the development of correlation-based theories, pumping large amounts of data into powerful computers to produce regression analyses, which measure the connection between attributes of great statistical significance. But aren't they missing the point? Processing ever greater quantities of data is not the answer. The solution lies in a careful reading of every organization situation. A good example of this is how two researchers, Steven Spear and Kent Bowen, succeeded in identifying key aspects of the Toyota production apparatus. When Toyota's enormous advances in car production were first appreciated, attention was directed to what came to be called "lean manufacturing", the obvious attribute of their system. Conclusions were drawn and books were written about cost reduction, transit times, set-up times and quality, and Japanese culture was thrown in for good measure.

Spear and Bowen were able to identify four fundamental rules that facilitated automatic feedback and led to greater effectiveness with continuous improvement (see the Harvard Business Review article, "Decoding the DNA of the Toyota production system", HBR September–October 1999).

A really good theory will identify situations in which it works and explain why it produces different results in what may seem to be identical situations. Managers often try whatever theories are reckoned to work and throw them out when they don't have the desired result. An example is benchmarking (BPR, Business Process Reengineering, is another), which has often disappointed because the theory has not properly explain the conditions for which it is appropriate.

It is remarkable how often a popular theory is applied to whatever situation arises, as in the case of Lucent. Originators of theories often have a tendency to be over-enthusiastic and perhaps forget to elaborate on the conditions necessary for a happy outcome.

The people who deal with the nuts and bolts tend to be too far removed from the theorists, who would do well to explain their work so that intelligent managers can make a correct diagnosis of their own situations in order to carry on with a degree of confidence.

It has been shown that categorizations based on industry, product or service almost never serve as a useful foundation for developing theories in organization.

Become a deliberate consumer of organization theory

Managers generally look for a theory which can help them in their particular situation, but the problem with organization work is that there are a great many building blocks to choose from, most of them heavily dependent on a certain type of situation. Here are some important points for consideration:

A. Look out for correlation in the guise of causality, sometimes called "the idiot's correlation". If dog owners live longer than other people is this down to the dog, or some other factor which makes a certain type of person get a dog?

B. The description of some phenomenon or problem very often makes a good beginning in the development of a theory, but should be regarded as no more than just that.

C. Look out when "revolutionary changes" are promised. They are usually talking about a shortcut between description and practice, bypassing the theory.

D. Learn from the unsuccessful application of a theory by drawing your conclusions on its causality and limitations.

E. Descriptions of success stories should be treated as sources of inspiration and not necessarily as the elements of the theory you have been looking for.

Short history

Dag Ingvar Jacobsen and Jag Thorsvik have carried out a useful review, listing the main streams of thought in organization theory from 1920 to the present day.[1]

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1 Jacobsen, D. I. & Thorsvik, J., (p. 29, 2002)

Year (approx.)	Organizations seen as	Main concepts
1920	Machinery	Efficiency Goals and strategy Formal organizational structure Reward system Management and control
1930	Social systems	Motivation Human needs Group processes
1950	Decision arenas	Information Decisions
1960	Political arenas	Divergent interests Power Conflict
1960	Open systems	External business environment Uncertainty Dependence Legitimacy
1960	Dynamic systems	Change Learning
1980	Cultures	Organization culture Identity
1990-	Networks	Network organization Virtual organizations

In keeping with the aims of the book, we don't intend to delve deeper into the history of organization theory. There are a number of other books that do this very well.

CHAPTER 2

Fundamental organization models

Some writers maintain that organization theory is basically a two-dimensional subject, with the vertical axis representing hierarchy, and the horizontal axis, specialization and the division of labor. By 'hierarchy' is meant the chain of command, or in other words, who reports to whom.

It is hard for people to escape from the two dimensions of a flat piece of paper. It is a pity that we are so easily trapped in this duality, for there are other dimensions worth investigating. In organization theory these dimensions are not mutually exclusive, but overlap, so we have to select the dimensions that best illuminate the things we are interested in, and on the basis of a basket of 'dimensions' and dependencies, create our theory.

Managers faced with an organization problem can always use Benchlearning®[2] to look for a role model. The apparent similarities thrown up by the categories of industry, goods and services, etc, should at first be ignored, and attention paid instead to the essential parameters of the situation.

In this chapter we give an overview of the models commonly used to define and categorize different types of organizational structure. We would like to point out that the reality is never as simple and rational as suggested by these models. In this section we

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2 Benchlearning® is a trademark registered by Karlöf Consulting.

operate on the theoretical level with the aim of simplifying, clarifying and underpinning a considerably more complicated reality.

Function, division and matrix

Every organization is constructed on the basis of a division of work and responsibility. This can be done in three ways, although there are a number of variations:

1. **The function organization** is structured according to the **work** the organization has to carry out.
2. **The division organization** is structured according to the most important dependence relationship in the **external environment** and the **market**.
3. **The matrix organization** is structured according to **two or more co-dependence relationships,** such as product and geography, or function and geography.

Internal network organizations are sometimes mentioned in connection with organizational structure, but this is usually in reference to how an organization *really* works rather than to organizational structure. The project organization is a variation on the theme, but we will be coming to this later in the book.

An enterprise usually starts off as a function organization and later, when it grows, becomes diversified and more complex, assuming the character of a division organization. An organization can adopt a matrix structure if it decides that demands made on it by the external environment do not necessarily oblige it to organize itself on the basis of one co-dependence relationship. The three main types of organization are briefly described below.

Function organization

When an enterprise comprising a leader and a group of employees develops beyond the stage where it can run its own affairs, it normally adopts the structure of a function organization.

Characteristics

The structure of the function organization derives from its main functions. A company's basic functions are production, sales, development and administration. This is the framework on the basis of which functions are broken down into smaller units such as Research and Development (R&D), manufacturing, logistics, purchasing, marketing, and finance.

The members of a function organization are grouped on the basis of competence in a particular function. Finance has its business economists, logistics its logisticians, R&D its engineers, and so on. Promotion is normally based on functional expertise: a good salesman becomes sales manager, a talented economist, chief accountant.

Targets are set and planning and budgeting are carried out at the functional level, while it is the responsibility of the top management or other appointed persons to coordinate the organization horizontally. Hierarchy, cross-functional processes, the organization's policies and the building of a common culture all play their part.

Ikea has a typical functional structure:

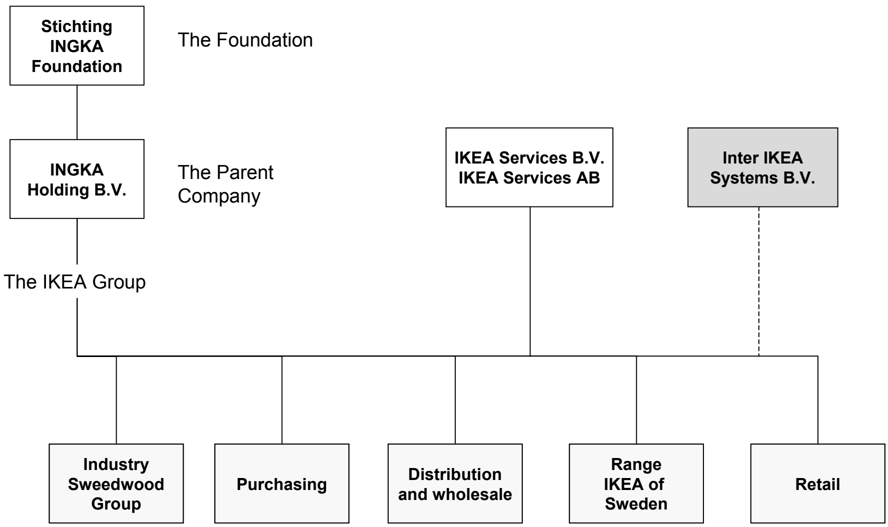


Figure 1. Examples of functional structures – Ikea (from the Ikea corporate web site, 2006)

Function organizations work well, especially in fairly stable environments where they are part of a homogenous, local market. They are normally to be found in small and medium-sized businesses or in operations where the coordination of functions plays an important part but is secondary to expertise in a specialist area, as in hospitals or universities. This form of organization is far and away the most common one in public authorities, but some companies, such as Ikea and the pharmaceutical giant Pfizer, with strong leadership and a centralized coordinating mechanism, have grown into global success stories with a functional structure.

Typical advantages

- **Specialization.** We say that organization has "skull" advantages if people with a similar competence and common goals are collected together in one functional area.
- **Advantages of scale.** A functional structure creates conditions in the production line to utilize economies of scale.
- **Relatively low degree of internal competition and duplication of work.** Internal competition between technologies and/or units often arises when an organization grows. Collecting together similar activities within one organizational unit is one way of reducing the risk of this happening.
- **Ease of control and review.** The functional structure is an appropriate one if management wants to have complete control of all parts of an organization.

Typical disadvantages

- **Lack of customer focus and coordination.** The main disadvantage of the functional structure is the difficulty in coordinating deliveries to customers and in avoiding sub-optimization at the functional level.
- **Cultural difficulties.** Many function organizations carry on a virtually hopeless struggle to build a company culture. Each function tends to create its own set of values and method of

working, which may not necessarily fit in with the image the organization has of itself.

- **Impossible to delegate responsibility for results.** A purely functional structure is extremely difficult to deal with when an organization grows and diversifies. The reason is that real responsibility cannot be delegated for the company's results. Company results can only be reported for the whole organization, even if cost and revenue targets can be set up for particular functions by internal pricing and other methods.
- **Problems providing executives.** It can be difficult to establish a career structure for top executives in a function organization. Career lines normally begin and end in each function, so the comprehensive perspective necessary for top management is often lacking.
- **Long changeover times.** Because the organization is structured according to its internal functions, it can be slow to adapt to market needs. Such opportunities slip, as it were, between functions.

Challenges to management

- Find ways to coordinate the organization over functional borders so that it works as a unit. This is often done by making the organization process-oriented – by creating workflows for important procedures which cut across several functions.
- Actively supervise functional activities and establish cross-functional information flow and cooperation. Extra executive resources are often needed to deal with this point (in planning, organizational management, etc.).
- Mediate in conflicts which might arise between functions. In order to do this, management must have the complete confidence of the organization, and in particular, of function managers.
- Involve the whole organization in strategy work that can be broken up into meaningful commitments for each function. This work should be done as a *fair process* (see page 126), where each function can fully participate in decisions.

- Actively work to build a uniform culture with common policies without inhibiting each function's positive characteristics.

Division organization

The division organization normally emerges when a business grows, diversifies and perhaps crosses national borders.

Characteristics

In this type of organization, divisions are comprised of various functions and coordinate the necessary ones such as marketing, manufacturing, finance, R&D, and so on, to deliver a particular product or to coordinate delivery to a particular geographical area or market segment. Theoretically, divisions should function like companies within companies. A division normally includes one of the following three classifications groups, according to whatever dependence relationship is most important for the organization:

- **Product.** The division deals with a particular product or set of products, as in the case of the Volvo business areas Mack, Renault Trucks, Volvo Buses, Volvo Construction Equipment, Volvo Pentad, Volvo Aero and Volvo Financial Services.
- **Market.** The division deals with a particular geographical market (a common type of division), such as HP or Assay Alloy's EMEA regional divisions (Europe, Middle East and Africa), the Americas and APAC (Asia-Pacific).
- **Customer groups**. The division directs its activities towards a certain customer category, such as the Swedish Waterfall's subdivision into Mega (sales to listed key customers) and Waterfall Sales (sales to other customers).

Divisions are basically meant to function as Strategic Business Units, or Subs. A division can include several Subs, just as an organization can be described in terms of different business areas crossing over a number of divisions.

A Strategic Business Unit is an organizational unit that in all essential respects acts as an independent business enterprise. This includes formulating its own business strategy in order to fight off competition and conquer the market. In order to be called a Strategic Business Unit, an organizational entity must:

- satisfy customer needs in a specific external market
- act to compete with external companies
- have its own business strategy and business mission
- work to increase profits, while taking responsibility for its results
- be separate from the parent organization (even if, as one would expect, certain resources and business interests are shared).

Organizing the business into Subs to harness entrepreneurial drive has become popular in large organizations. By establishing Subs, responsibility can be decentralized and shared out between managers, who are then better able to focus on facing the competition and achieving targets in a limited area. The parent company assumes the role of portfolio administrator and owner. Coordination in the organization is at divisional level and employees identify with the division's goals and values, rather than with those of their own function. Divisional managers are heavyweights who are normally a part of an organization's central management group.

Alfred P. Sloan was one of the founders of business unit thinking who, during his time as Manager, Managing Director and Group Chief Executive of General Motors (GM), looked for ways for the organization to grow without losing its flexibility. When Sloan took over, GM had a complex structure in which different makes of car competed with each other just as if they were competing with their biggest competitor, Ford. Sloan's solution was to organize the company into five car divisions and three component divisions, where each division had a managing director with commercial and strategic responsibility. The component divisions began to sell components to external players, just one example of the business opportunities that followed. The divisional structure was introduced early in the 1920s and by 1925, GM had superseded Ford as number one. Sloan's organizational model –he called it "federal decentralization" – was firmly based on business unit thinking and came to be a model for many other organizations. These days it is the rule rather than the exception that big companies are constructed around business units. Sloan's ideas came to be honored and promoted by such management gurus as Peter Drucker and Alfred Chandler.

Gradually however, GM came up against problems which during the 1960s led to big reverses. The more powerful of the business units wanted to take control of the whole organization and the corporate structure began to suffer from unnecessary bureaucracy. The divisional structure had contributed to what it was supposed to counteract – sluggishness in the organization. Academics and practicing managers agree that group management should get involved as little as possible in the day-to-day running of strategic business units.

For the reader interested in learning more about Sloan's work at GM, we recommend *My Years With General Motors* by Alfred P. Sloan (New York: Doubleday/Currency 1990).

The Swedish Sapa Group has a typical product division structure, while NCC, a leading Nordic construction group, can be said to have a geographic division structure.

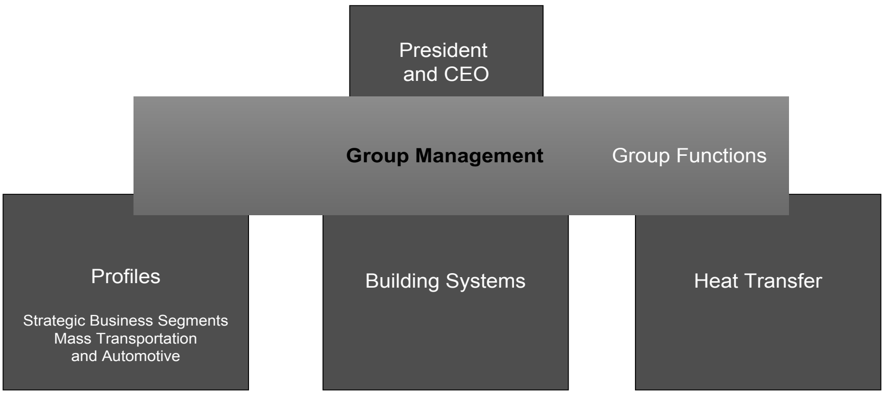


Figure 2. Sapa Group's organizational structure (Source: Sapa's web site, 2006)

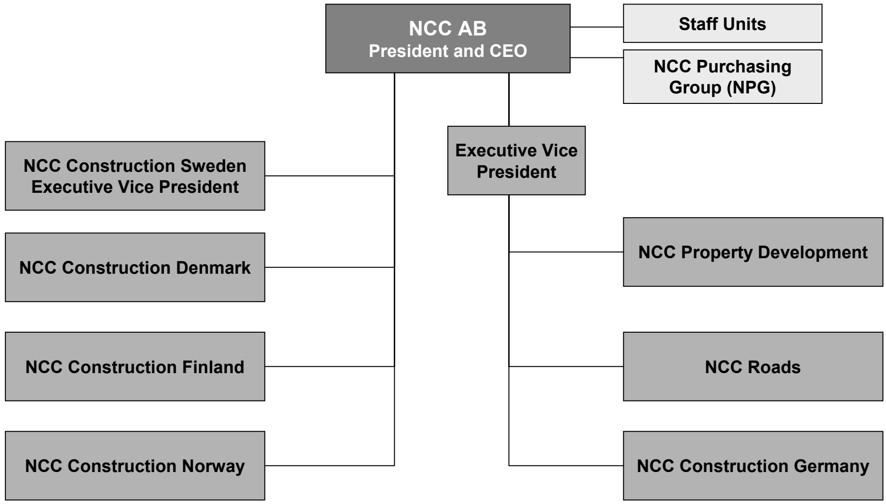


Figure 3. NCC Group's organizational structure (Source: slightly modified from NCC's website, 2006)

It is possible to find the divisional structure *in some form* in all big companies. It has also become popular in the public sector, which Professor Henry Mintzberg of McGill University in Montreal, an organization guru, regrets. He believes that the advantages, which gave rise to the division concept in the first place, disappear when responsibility cannot be delegated for results.

The division organization has been shown to succeed in heterogeneous environments where innovation, customer focus or knowledge of the market, are important goals giving competitive edge.

Typical advantages

- **Decentralization of responsibility for results.** In an early study of divisionalization in Swedish companies (Edgren et al), this emerged as the principle attraction. Every division could be held responsible for ist performance.
- **Short changeover times** Because each division has its set of functional resources and executive orders, it can adapt quickly to changes in the market and the business environment.

- **Advantages of small-scale operations.** Divisions can function as companies within companies, creating the conditions for large organizations to retain the advantages of small ones.
- **Better conditions for growth.** With the divisional structure there are no structural impediments to limit an organization's growth. If the organization begins to work with a new customer segment, geographical area, or product line, it simply adds another division.

Typical disadvantages

- **Advantages of skull and scale not exploited.** A disadvantage of the divisional structure is that advantages of skull (specialization) and scale cannot be exploited to the same the degree as in a function organization.
- **Duplication of work.** Both division and function organizations have a problem with coordination. The wheel is constantly being reinvented in the whole organization. Employees in many divisionalized groups are well acquainted with the expression "not invented here", meaning that they don't want to take on board anything new.
- **Internal competition.** Another aspect of the lack of coordination is negative internal competition. Something similar happens when one company product devours another because they both appeal to the same customer need.
- **Internal pricing problems.** Because every division is fully responsible for its results, some form of internal pricing often has to be applied in order to harmonize the business of the divisions. Of course this is especially important when they do business directly with each other.
- **One-sided focus.** The divisional structure is always based on a particular dependence relationship. As mentioned earlier, divisions may be based on product, customer group, or market, as well as a number of other, less common, factors. Clearly, it may

be difficult to choose the right dependence relationship, and there is always a risk that there are others just as important but which have been ignored.

- **Weaknesses in non-commercial applications.** Professor Mintzberg has pointed out how illogical it is for non-commercial organizations to adopt a structure devised to maximize profits.
- **Risk of greater centralization.** Decision-making can be much more centralized in a decentralized organization with powerful division managers, than in a functional organization.

Challenges to management

The group management of a division organization is responsible for a portfolio of independent business units, so that the control exercised over these units seems more like corporate governance than the simple operative management of each divisional manager. Group management's main role is to:

- Formulate a portfolio concept (each division will have its own business mission) to describe the group's operations as well as the logic behind them. A portfolio concept should describe the group's *raison d'être* and sphere of operations, and can be used for the analysis of disposals, outsourcing strategies and other structural changes.
- Manage and develop the group structure so that it remains competitive.
- See that each division carries out a strategy program and take part in group decisions.
- Appoint and remove divisional managers.
- See that synergies between divisions are given as much support as possible, perhaps by identifying the needs of the group's development projects or service functions. "Shared service centers", where a functional staff is appointed at group level to deal with all routine personnel questions are much in vogue at the time of writing.

- Focus on some aspect of the group's operations which has a bearing on all divisions. Do we focus on raising income, rationalizing costs, growth …?
- Formulate result requirements in the different divisions and follow them up.
- Allocate common resources.
- Work out and administer a control system to deal with common goals in respect of each division.
- Describe the elements that should be common to all divisions in what is often a diversified organization. An example of this might be values that should always permeate the organization, irrespective of which operation is being carried out.
- Protect and promote the group's brand.

Sometimes the lack of operative responsibility in group management can lead to unwarranted reorganization. Structural reorganization is often an attractive way – sometimes the only way – for a new group chief executive to show his or her paces and impress people in the organization. If sweeping changes made to the group have a happy outcome, the instigator becomes a hero, even when it's not clear how much was due to their contribution. If the same thing happens without the new boss appearing to do anything, then the organization's good fortune is ascribed to a turnaround in the market, or the dogged good work of the division managers. We may be putting too fine a point on this, but the attributes of high salary and comprehensive executive power can be problematical psychologically if a new chief simply lets operations go on as before. Even so, we would still like to stress the importance of initiative, especially in what from an organizational perspective would seem to be the psychologically irrational nexus of many reorganizations.

Matrix organization

Many organizations adopt some form of matrix structure to deal with the myriad demands of the business environment.

Characteristics

A matrix organization is set up to meet the demands of two or more situations which are deemed to be too complex to be handled by an organization's normal processes and working methods. A business may have to combine the functional structure's specialist attributes with entrepreneurial product divisions. Another common matrix structure has the juxtaposition of product divisions with regional organizational units. The idea then is to exploit the advantages of two or more overlapping forms of organization.

Multiple reporting relationships are a typical feature of the matrix organization. An employee may report to a regional manager as well as to the manager of the product area for which s/he works. Responsibility for results is usually shared. Group management will want to be able to exert pressure on their regional managers who are responsible for the results of all products within a geographical

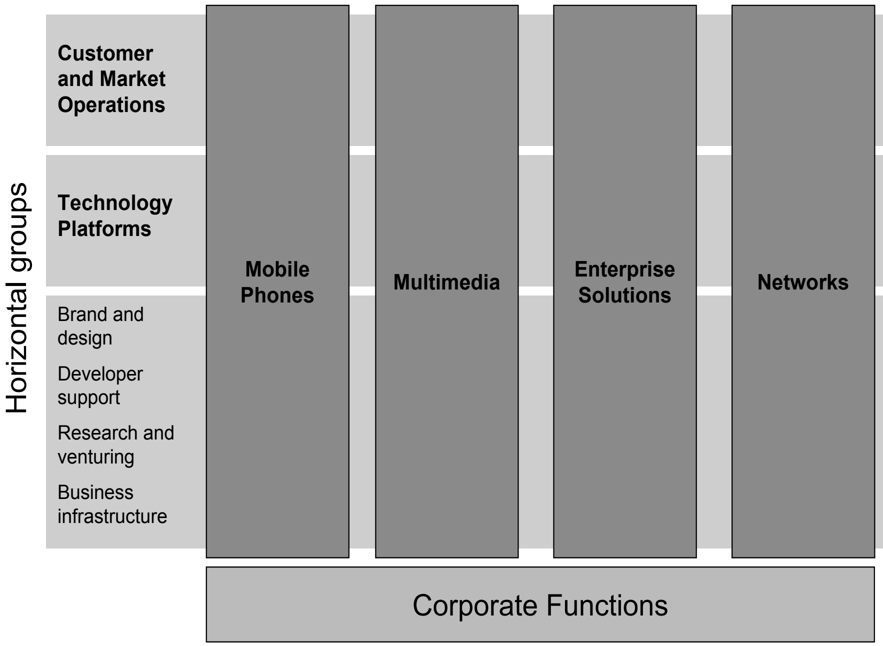


Figure 4. Nokia's organizational structure (Source: Nokia's web site, 2006)

segment, as well as on their product division managers responsible for one product in every country.

In a two-dimensional matrix organization, then, there is a dual hierarchical structure and power must be balanced between the elements on which the matrix is based. This may result in a flexible and versatile organization but may also create problems. We will be looking at this later.

Nokia has a typical matrix organization, with functions cutting across four product divisions, each with its own responsibility for results.

While all organizations have dependence relationships which have to be handled in parallel, there is no one organizational structure which can satisfy all of them at the same time, as desirable as this might be. Multiple dependencies are normally handled through processes that cut across functional, product and geographical boundaries, and somebody will be responsible for coordinating the activities of the whole. But this kind of structure should not be confused with a matrix organization, in which the structure, with its balance of power, reflects two or more co-dependent (mutually supporting) relationships.

The Philips Group was a pioneer in the establishment of matrix organizations. The dilemma for them had been how to balance on the one hand, responsibility for sales in countries generally, and on the other, the product divisions' responsibility for total sales and total results. The solution they came up with was a large number of coordinated bodies dedicated to solving conflicts that were set up to handle problems at the intersecting nodes of the matrix. But this hardly ever seemed to give the desired result. Much internal energy went instead on oiling the wheels of the system and trying to get it to work with as little friction as possible.

The well-known article by C. Barlett and S. Ghoshal, "Matrix Management: Not a structure, a frame of mind" (*Harvard Business Review*, July/ August 1990) drew attention to the matrix organization's disadvantages and complexity and presaged the decline of this organizational structure. This may be a suitable juncture to repeat that while the relationships between working methods, processes, reward systems, and so on, should be noted, there is no one organizational panacea.

A matrix structure can solve an organization's problems when a) it is of prime importance to be attentive to two or three sectors (product and geographic, say, or customer and technology) at the same time and b) the market is suffering from a period of uncertainty and there is a great ongoing need for flexibility and dialogue over organizational boundaries.

Typical advantages

- **Allows several co-dependent relationships.** The matrix organization allows a balanced focus on two important co-dependent relationships at the same time.
- **Intensive information processing.** An exchange of ideas, inevitable at the intersection points of the matrix, can contribute to agreement across organizational boundaries, regardless of whether these are defined by products, regions, technologies, customers, or functions. So the matrix becomes an effective structure that is sensitive to needs and changes in a complex business environment.
- **Effective distribution of resources.** The matrix structure guarantees that resources can be distributed quickly where the need is greatest, as employees are active in two or more dimensions of the organization.

The matrix can also be justified in terms of internal politics. For example, the fact that both functional and regional managers count for something in an international context, can have far-reaching consequences for the organization.

Typical disadvantages

- **Meaningless exercise excuse (shared responsibility – no responsibility)** The underlying idea of the matrix is that shared responsibility should lead to greater flexibility and more effective solutions, but we could end up with no responsibility rather than double the responsibility.

Davis and Lawrence in their article in the *Harvard Business Review* (1978) summarize problems common to matrix organizations:

- **Ambiguous responsibility.** Managers and co-workers in a matrix organization may be confused as to their goals and who they should report to.
- **Power struggle.** The matrix is built on shared responsibility and a balance of power but often this can lead to power struggles where the best talents in the organization are left in wake of such struggles.
- **Group disease.** The matrix means that several people have to be present in the decision-making process. This can be positive but can also lead to "group disease", where all the decisions, big and small, can only be made through interminable group discussion.
- **Weakness in adversity.** A recession tends to accentuate the weaknesses of the matrix organization. Negotiations turn into conflicts and the meaningless exercise excuse takes over as no one person is held responsible.
- **Greater company costs.** The dual hierarchy leads to more managers and in particular, more top managers, entailing higher costs. "Meeting mania" can also develop, lumbering the organization with a large central staff to administer and review the situation.
- **Navel-gazing.** Coordination of the matrix, power struggles, duplicated reporting and ensuing group disease can lead to widespread navel-gazing in the organization. Internal matters become complicated to the degree that there is no energy left to focus on the market or undertake development work.
- **Decision indecision.** Sharing responsibility because of the need to coordinate can lead to uncertainty, with nowhere to hang your hat.

We have seen large organizations, with tens of thousands of employees scattered all over the world, trying to re-structure, whether on a geographical, product, customer segment, or some other basis. One of the – in many ways commendable – traits of the technocrat is to try to satisfy all the needs of the formal organization. But one can get carried away by looking at the justice of every organizational situation. The organizational dilemma is that the need to address every situation may conflict with the need for simplicity, clarity and long-term stability. *If head office tries to remedy every situation all at once, it may lose its grip on the organization.*

The lesson, then, is to think very carefully before you opt for the matrix organization. Do the advantages outweigh the disadvantages? Isn't the solution rather to implement better working methods and processes? The matrix organization may look satisfyingly logical on paper, but tends to be unwieldy in its application.

Challenges to management

- The division of roles and responsibility is of prime importance in matrix organizations. Who should do what and under what conditions? Who has the authority in a particular case? Could conflicts arise from a particular situation? Power struggles and unnecessary conflicts of interest can loom where there is a lack of clarity.
- Top management must be prepared to deal with conflicts as they arise.
- It is essential to have a balance of power in matrix organizations, so the conditions for this, in terms of people and authority, must be there. It is important to appoint the right managers, so that each one faces someone worthy of respect.

Mintzberg's five structures

Professor Mintzberg is a researcher at McGill University in Montreal, Canada, active in the areas of strategy and organization. His thinking is based on the premise that there are forces in an organization which create 'contours' reflecting the balance between different organizational elements. The figure below shows Mintzberg's five structures and their characteristics.

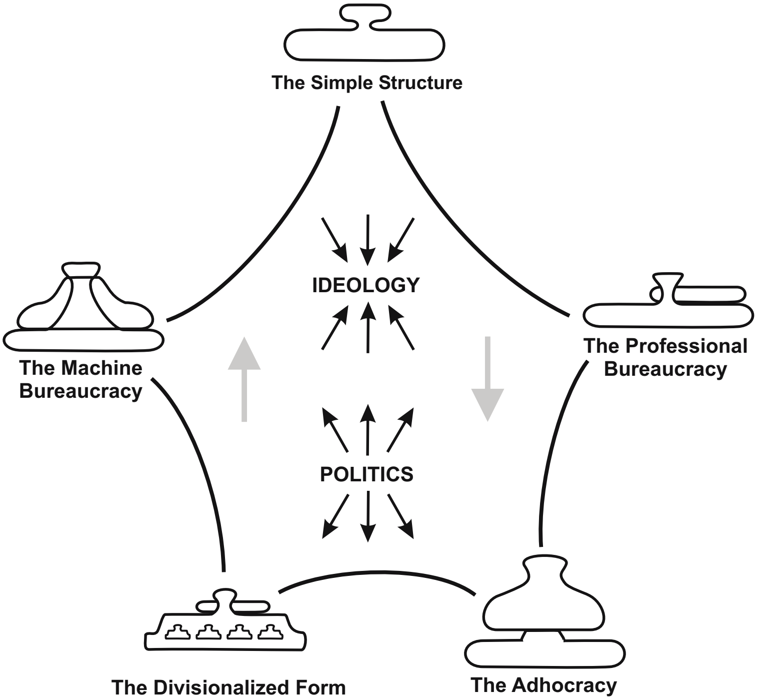


Figure 5. Mintzberg's five structures

The simple structure

The *Simple Structure* is characterized above all by what is missing in its development. It has little or no technology, few people in support functions, a minimum of differentiation between units and a simple management hierarchy. Coordination in the Simple Structure is mainly carried out through direct supervision, and all decisions are taken by the managing director. This structure often comprises an operative nucleus with just one person in charge. The Simple Structure is often a transient phase in the development of an organization.

The machine bureaucracy

A national postal service, a steelworks, a large car manufacturing company: all of these organizations have a number of structural characteristics in common. Their operations are routine, often simple and repetitive, and result in heavily standardized procedures. The work done by the operative nucleus is here rationalized to the extreme and seldom calls for advanced training. The primary coordination mechanism is the standardization of work routines. Technocracy, with its reliance on experts, escalates because the machine bureaucracy relies heavily on standardized routines.

The professional bureaucracy

Organizations can be bureaucratic without being centralized. Typically, operations are stable and lead to standardized behavior, but they can also be complex, so they should be directly controlled by the people doing the work. A coordination mechanism, which comprises standardization and decentralization at the same time, as in banks and insurance companies, is appropriate to structures of this type. The professional bureaucracy is common among universities and hospitals, relying as it does on the skills of its professional operatives.

The divisionalized form

The divisionalized form is not so much an integrated organization as a number of quasi-autonomous units linked by a central administration. Its units are usually called divisions (often organized as companies or Subs), while the central administration is known as "head office". (See page 16, under "Division organization".) Divisions are created to correspond to the markets the business wants to serve, and are given control of the operative functions needed to serve those markets.

The adhocracy

None of the 'contours' discussed so far contributes to a creative environment. The Machine and Professional bureaucracies are performance-oriented, not problem-oriented structures. A problem-solving environment calls for a fifth and very special type of structure that can bring together experts from different disciplines in smoothly functioning *ad hoc* project groups. (*Ad hoc* means "for the purpose at hand"). The Adhocracy is very much an organic structure with little formalized behavior, a high level of work specialization based on training, and a tendency to group specialists in functional units for purposes of internal administration but, in small market-based project groups to do the actual work.

Professor Mintzberg is an important theorist and his ideas have had much influence in academic circles, but we cannot say that his 'contours' have been of much practical use in organization work. We have included them here because they can be useful in categorizing different types of organization.

Network organization/project organization

Mintzberg uses the term *adhocracy* to describe an organic form of organization with little use for formalized reporting and chains of command. A popular term is also 'network organization', where there is a focus on the internal network of workers, units and functions. Admittedly, this can be confusing, since the term 'network organization' is also used to describe intermediate organizational networks (see the heading, "Virtual/Imaginary organization"). But we are referring to an organization's inner structure here.

The network organization comprises a number of project groups or "nodes", which can be quickly mobilized to perform a task or satisfy a customer need. The management function is often manifested in projects, hence the alternative name of 'project organization'. Projects often have a temporary character, yet in the pharmaceutical industry long-term research projects often outlast mergers, acquisitions and reorganization. So in this case, this kind of organization could also be thought of as, "a form of work helping employees to maintain focus in changing times".

A network organization is not so much an organizational structure as a form of work an organization is free to choose. It doesn't conform to the criteria for a bona fide organization as all its workers are on the same level, making major decisions on mergers, pay levels and the like. There is always a more formal structure behind it, although this may choose to play a more modest role than the projects with their team leaders.

Virtual/imaginary organization

The term ‘network organization’ can also refer to external networks, where a number of organizations work together, permanently or according to need, to attain delivery or market synergies. This is quite common in consultancies and the construction industry, in which several relatively small organizations with expertise in particular areas (e.g. floors, electricity, plumbing, painting) might cooperate. This kind of organization, called ’imaginary’ or ’virtual’, is always larger than its separate parts.

As long as twenty years ago, Scandinavian Airlines (SAS) had the idea of limiting the company’s activities to marketing and promoting their brand, as almost everything else, from heavy industrial maintenance to pilots and cabin personnel, was outsourceable. Nothing ever came of this idea but Richard Branson’s Virgin Group took it up and in 1995 won about 5% of the British cola market with just five employees. By concentrating on his Group’s core competencies, marketing and brand, this little team achieved spectacular success. Everything to do with production, distribution and administration was bought in.

The virtual organization can come in many shapes and sizes and is constantly re-inventing itself. It has proved popular with car hire companies and in the insurance business, where start-ups have been known with just one or two people who have gone on to break into the market, helped no doubt by their mobility. Even in the telecoms industry, we have seen how the new boys on the block have been able to organize themselves more or less virtually in order to avoid the heavy cost structure of their unwieldy competitors with a monopolistic background.

The writer Robert Baldock sees the meaning of the term ‘virtual’ as removing the limits of time, place and form, as exemplified by the convergence of IT, telecoms and the visual media. This convergence is represented by the acronym “TIME”, which stands for Telecom, IT, Media and Entertainment. The virtual perspective shifts the focus from physical equipment in the production of goods, but someone must possess and administer such assets. Work tends to be shared between a concentration of specialist companies, which act as administrators.

The film industry is a good example of one in which the transition has been made from the traditional organizational structure to the virtual organization. In the old studio system everyone, from Cary Grant down to the lift operator, was an employee, but the traditional studio has now been replaced by a virtual one of freelancers, including the director, actors, stagehands and marketing people, who are all brought together to make the production. The virtual organization is often constructed along the lines of the function organization, except that the functions have been separated and placed in different independent companies. Its parts often do not share a common history, nor do they have shared cultural patterns or values. The virtual perspective can be useful when contemplating reorganization, for example, in connection with "zero base" (see the section on Tools and Conceptual Models).

In "Outsourcing" (page 92) we discuss Ronald Coase's research on where an organization begins and ends. When is it to our advantage to make use of a planned economy with its internal business and when should we focus on external transactions and a market economy? Virtual organization is something of a buzz word these days but among the exotic blooms of the organizational jungle, it is well worth considering as an advanced form of outsourcing.

Organization of the value chain in the car industry

Jeffrey K. Liker and Thomas Y. Choy described in their article in the Harvard Business Review how hard it was to establish supplier partnerships in the American auto industry (HBR, December 2004, Building Deep Supplier Relationships).

The question was not whether these companies should turn a normal supplier relationship into a partnership but how this could be done. All the experts recommended that American manufacturers, like their Japanese competitors, should seek to build *keiretsu*, a solid network of suppliers who continuously improved and shared in the success of their customers, also called "parents" (but not to be confused with the parent company of a group). The bad news, however, was that companies did not generally realize how difficult it was to build close relationships with suppliers. American-owned companies had been trying for more than 20 years to build such supplier relationships, beginning with the big quality push of the 80s when the Japanese partnership model was so admired. Supplier numbers were cut and long contracts were given to the happy few, who were made responsible for system deliveries instead of components, and had to shoulder the responsibility for quality and costs. In 2001, the Malcolm Baldrige National Quality Award Committee introduced a new category, which included lines of communication with main suppliers.

While American companies created value chains that on the surface looked like those of Honda and Toyota, there was little change in the fundamental conditions of supplier relationships. It was not long before the car manufacturers and their suppliers began a bitter fight about "best practice", interpreted as continual improvement and annual price reductions.

Two important factors had emerged at the end of the last century. First, companies were better able to manufacture and supply globally, primarily from China, when the advantages of lower wages in the short term were more attractive than long-term investment. Second, competition was more brutal than it had been up to then because of the Internet. As a result, relations between suppliers and car manufacturers in the USA, twenty years after the quality revolution, were worse than they had ever been.

Ford was at the time using an inverted type of auction to get the lowest prices and GM was writing contracts granting themselves the right to change to cheaper suppliers without notice. Chrysler too, tried to introduce keiretsu – a process that abruptly stopped when Daimler took over in 1998. All of this led to a war between the three American car manufacturing giants and their suppliers. The article in HBR should give the reader an understanding of the conditions that make for a successful supplier chain.

Flat organization

'Flatness' – few management levels – in organizational structure has been the goal of many people since Jan Carlzon's bestseller Moments of Truth (*Riv pyramiderna*) was published in 1987.

We have noticed a paradox in many companies we have worked with: the flatter the organizational structure, the higher the degree of centralization. We call this a paradox, because flat organizations and decentralization are supposed to go together. Two factors lie behind this apparent paradox:

1. Someone always has to make the decisions when there are disputes, when managers are recruited, upon reorganization, etc. In a pyramid organization, this responsibility can be divided between the division managers, who can then delegate as they please. The fewer levels an organization has, the more centralized power is going to be around a couple of people in top management.
2. Structures that are not formal in the sense that they can be put down on paper and clearly communicated, tend to create uncertainty around areas of responsibility and authority. This can easily lead to political infighting among employees. An organization may grow to depend on an information structure that can bind it together better than an organizational chart. A formalized structure can be changed relatively easily, but the same cannot be said of the informal structure, where many new people often have to be brought in.

We conclude this section on fundamental organizational models with a few words in defense of the pyramid. Pyramids are meant to help in decentralizing and delegating effectively. Of course it is a good thing to reduce the distance between levels of authority and communication but this does not necessarily mean that the pyramid should be completely demolished. Perhaps all that is called for is a cleansing of the catacombs and the removal of one or two mummies.

Process organization or processes and organization

We are in two minds over the term *process organization*, which looks like an oxymoron. After all, processes are workflows, while organization speaks of the division of work. Enterprises with an expressed process organization that we have come across have in fact had the traditional division of organization and an emphasis on process management. Neither have we been able to find in the literature a convincing description of what a process organization is from an organizational perspective, other than in very general terms.

In this section we'll be briefly looking at what processes are and the variants of process organizations we have come into contact with. The discussion sometimes takes a semantic turn, as we would like to see things more clearly defined. "Process organization", like much else in management, means different things to different people.

What is a process?

A standard definition is that a process is a series of activities that refines a product or service. In other words, a process is a description of a course of events in an organization.

All organizations have processes, which form the frame of the organization's physiology. Most organizations also choose to chart their essential processes in the interests of uniformity and to improve them gradually or dramatically, for instance through business process engineering. The clarification of an organization's workflows also makes an excellent basis for calibration and drawing inspiration from other organizations, as in benchlearning®, which is illustrated in the following two examples.

Example 1 – Productivity gains in Telia

Some years ago, a benchmarking study was carried out on installation and trouble-shooting in which Telia (now TeliaSonera, a leading telecommunications company in the Nordic and Baltic region) and Elektroservice took part. There are similarities between installing a dishwasher and a telephone jack, as well as between repairing a washing machine or telephone line. The important thing was that the two companies accepted each other as partners. Differences in productivity were astonishing. Elektroservice came out better by a factor of 5 when its productivity was measured in costs per order. The main reasons for this are given below.

A. Elektroservice had a well-integrated process between their sales and installation services. In Telia, orders were received at that time by Teleservices (*Teletjänster*). Orders were carried out by another division, Net Services (*Nättjänster*), which in turn had to order material from the Materials division. This to-and-froing between divisions was time-wasting and expensive.

B. The Service people at Elektroservice were able to handle up to 30% of their troubleshooting by telephone ("When was the last time you cleaned your washing machine's filter, sir?")

C. The procedure for booking appointments was much more effective at Elektroservice, where the customer was given the choice between three available times. At Telia, the customer was asked when the technician should visit.

D. Elektroservice had an IT department that fully supported their system. At Telia information had to be retrieved from three systems.

The focus on process and workflow was clearly extremely relevant in this benchmarking exercise, when Telia were made aware of their shortcomings.

Example 2 – Turnaround times in the airline business

The main activities of airline companies were examined in a benchlearning study in connection with the maintenance of light aircraft. Aircraft maintenance comprises the activities carried out at a gate when an aircraft lands until it takes off. The following are examples of these activities.

- Departure check
- Maintenance check
- X-check
- Y-check
- Z-check
- Deicing
- Ice-check
- Snag item
- Cleaning
- Fuelling
- Water/Sanitation
- Loading/Deloading
- Push back
- W-check
- Power supply

Diverse activities thus call for the specialist attention of a number of different workers. In one of the companies concerned, these different activities were not seen as the components of a flow targeting customers, i.e. their departure. Areas of responsibility were cut up piecemeal and were not properly coordinated. Once activities were seen as a whole process, parallelism and coordination were introduced, thus shortening the turnaround time for the aircraft. Fast turnaround times benefit a company's finances as they have a positive affect on customer flow. A small airline taking part in the study used the same personnel for different activities, which reduced turnaround times. Their pilots checked engines for oil leaks or air pressure in tyres, while expensive specialists were hired by the bigger airlines for these important but minor checks.

What is a process organization?

Instead of discussing why we work with processes or how this is best accomplished, we would like to focus on the question, What does it mean to be organized on a basis of processes?

There seems to be some confusion, semantically speaking, about what a process organization is. Organizations that have process-oriented working methods are called process organizations, just as organizations with project-oriented working methods have been called project organizations. The term 'project organization' is rarely heard nowadays, as this form of organization is taken for granted. The same thing is happening, if it has not already happened, with processes.

The definition relevant to the subject of this book is, "an organization in which processes form the basis for its structure (anatomy)". To understand the implications of this definition we could substitute for 'process' other words such as product, customer, function, and so on (see previous sections).

In companies and other organizations, we have come across two cases of what we would call process organizations (apart from organizations that have a process-oriented form of working as discussed above).

Case 1: Vertical division of the value chain

In 1980, the Harvard professor Michael E. Porter introduced the value chain as a model to clarify a series of sequential main and support activities in an organization's value creation. Primary activities are:

Figure 6. Primary activities in Porter's value chain

An organization can comprise all of these activities, or focus on a particular link in the value chain (degree of horizontal integration).

Process organization has been used to describe a structure where the main activities in a value chain – not necessarily as in Porter's arrangement – have been used as a basis for operations. An organization like this could have a structure comprising Procurement, Product Development, Marketing, Sales, Logistics and Customer Service. This is nothing but a traditional function organization (see this section) placed in a value-creating context and we find it difficult to see how this structure can be called a process organization.

A functional structure is in many ways just the opposite of what is being aimed for in Case 2, below.

Case 2: Process owners and competence centers

The second case is characterized by a desire to give an organization greater direction along the vertical flows that lead to a satisfaction of customer needs. To base an organizational structure on these workflows is seldom possible, except in small businesses or in very general terms. Organization is all about the division of work. Processes do not naturally fit into the picture as elements of an organizational base since they only serve to coordinate work directed at the customer.

From a management perspective it is possible to allocate responsibility for results to owners of processes who recruit resources from different organizational competence centers to make a delivery to the customer. But an organization still has its structural basis in regions, functions (based on competence), etc. Processes have to do with management and questions of responsibility, rather than with organizational structure.

Example – Process management in the Swedish customs service

The Swedish Customs has been through it all in this respect. They used to be strictly divided by region, which involved a great deal of unnecessary administration. There was little customer satisfaction an d questions were being asked of Customs. Light then began to appear at the end of the tunnel when, by adopting a process perspective, management realized that the organization did not act in isolation but as a part of other processes in society. In other words, Customs were not the sole owners of their main processes and had to function together with other players if they were to reach their goals.

The service defined operations in terms of two main processes, *effective trade* and *fighting crime*. Effective trade is divided into two main production processes, *quality assured flow* and *other flow*. Fighting crime is divided into *organized crime* and *other crime*. These two main processes have provided the framework for organizing and managing operations. Their divisionalized structure, a characteristic of all organizations with a large geographical spread, has been given entire responsibility for resources and divided into competence centers.

So, have the changes made by Swedish Customs paid off? Customer satisfaction has rocketed, while productivity has increased. Costs have gone down. The organization has become customer-oriented in a way it never was before. The owners are happy. Of course it has not been a bed of roses. Anyone who works in the public sector will know how sensitive the customer question can be and here it was introduced across the board. Crime fighting operations were not spared either – this from a criminal law perspective. The process orientation exercise has also involved centralization in some respects, necessary if customers were to get a square deal. Regions are no longer autonomous and some people are not going to take this lightly.

The reorganization of Swedish Customs has taken many years and probably has not gone too smoothly at that. The interesting thing is that their management has stuck to their guns all the time and carried out their intentions to the full. In this respect, the Swedish Customs Service has proved a shining exception to the many examples of half-baked process orientations the authors have witnessed.

The importance of working with processes

The above cases will no doubt seem familiar to many of our readers. There is a need in practically all organizations for uniformity and for processes to coordinate the work of producing goods and services. A process-oriented perspective of operations is in the great majority of cases both valuable and insightful. Managing operations on a process basis can also be worthwhile, even adapting the organization if necessary, as in the case of Swedish Customs.

All the organizational initiatives we have been involved in have been based on processes, that is, in what an organization was to produce and the logic of how this was to be done. Then it was simply a question of finding the structure that could best do this.

Example – Organisational consequences of insights from processes

We know of a big company that used to keep separate the sales of hardware and software on the one hand, and installation and operation on the other. These two types of delivery were housed in different units, so to speak, each one accountable for its results. A consequence was that important orders were lost due to the service department's requirement for costs to be covered in full. This meant that the average cost of delivery and installation was too high and another supplier was chosen in spite of the fact that the consolidated results for the first supplier had been fully satisfactory, even with hardware and software lower priced overall. This phenomenon comes under the term *suboptimization*. The lesson from this situation was learnt and led to a reorganization of the units concerned and shared accountability. "So obvious", one might think afterwards. A tool for modelling and mapping processes from an organizational perspective is presented in the chapter "Tools and models".

This section should by no means be seen as a criticism of processes, process management or process orientation. Quite the contrary. However, we do advise caution when using the term 'process organization' and encourage an awareness of how it can be interpreted. We trust that it is now clear why we haven't chosen 'process' as a basis for classifying organizations in the same way as 'function' or 'division' (see these sections).

Summary and study points

It is hoped that this summary of fundamental concepts will assist in the work of organizational analysis and change. The reader may also find it especially useful to go through the potential disadvantages of each of the structures in order to consider how they might be best avoided. Some of the lessons to be drawn from organizational theory are:

- A familiarity with the fundamental structures and concepts is always useful in any discussion of organizational change.
- It is important to differentiate between organization and working methods. A classical pyramid organization with a functional structure can easily be run in project (network) form. A division organization nearly always has processes which cut across the divisions but it doesn't have to be a matrix organization for all that.
- There is no neat theory that will tell you which organizational form is best for a particular situation, and notable exceptions exist to counter any thesis on the subject.
- In organizational theory it is important to draw the right conclusions on the connection between cause and effect. We should ask ourselves, "Is an organization successful because it has a certain structure, or has its products made it successful in spite of its structure?"

CHAPTER 3

The organization's anatomy, physiology and psychology

The models we described in chapter 2 were simplifications of a complex reality. In large organizations, structures are often too complicated for us to make even this claim. One of the authors in the 1990s was given by Ericsson the delicate assignment of explaining their organizational structure to new employees. No stone was left unturned and everything from Group management down to a funny little unit on the outskirts of the organization was brought into the picture. An hour and a crammed whiteboard later, both listeners and presenter had been reduced to a state of bewilderment.

An organization often grows step by step, but not necessarily as planned in a blueprint. When there is a more or less smooth development it's usually because in the background there is a business mission keeping things together (see the heading, "The organization's ideological basis"). As in the theory of the origin of the species, a number of variants may have been tested and found wanting. What has worked for a particular region or product can be kept and developed further. This may well mean that the models we have discussed are of limited use when we begin to unearth the bare bones of an organization. Functions, divisions, networks and matrices may have been introduced helter-skelter with a sound lack of respect for purely theoretical archetypes.

In this chapter we'll be going through some of the factors which affect the workings of an organization but which are difficult to find in an organizational chart.

It can be useful to look at an organization as though studying an animal organism, with its anatomy, physiology and psychology. (This is especially true of technocratic environments with their emphasis on structure and rationality but relative ignorance of human values and organizational culture.) Sometimes it's hard to distinguish between the chicken and the egg when we try to come to a clear understanding of how an organization functions. Often we begin with the structure – an organization's anatomy – and do not give enough attention to its processes or culture. The heady days of the matrix organization in the 1970s is a case in point.

By an organization's 'physiology' we mean its information flow, the interplay between units and in particular, its performance in respect of customer needs. A great deal of attention has been given to the physiology of organizations since Business Process Reengineering (BPR) was launched, mainly because of the tendency to create specialist centers which beaver away without paying much attention to customer needs. Focus is then often directed internally instead of externally. A readjustment of the focus towards physiology means that an organization can gain new insights in respect of customer needs and the market, and so work more effectively. An organization's physiology deals with systems that facilitate information flow inside and around the organization.

By an organization's 'psychology' is meant important elements like values, norms and creeds that guide management behavior.

The human factor

If for a moment we look at organizational structure as a technocratic and rational exercise, we should be able to isolate the human component for examination. Our experience is that human factors affect organizational structure dramatically, much more than we would suppose and certainly more than people are prepared to admit. It is almost impossible to discuss organizational structure and effective parameters for more than ten minutes before the conversation turns to people and their skills. We are here talking about ability, personal chemistry, inter-personal relationships, etc. Here are a few examples of the kind of thing we hear all the time:

1. She's not going to finish today. What she needs is a better boss.
2. If we make a unit of A, then we're going to get some of the work from unit B and their boss is going to come and lord it over us. Great!
3. She would never accept him as her boss for the new department as she doesn't think much of him.
4. Mark and Sarah don't exactly get along, so if you think this thing is going to work – think again!
5. If we do it like this, we'll be able to get people in from outside – and we could really use them.
6. I like the structure we have. Then we can advertise all the jobs and into the bargain have a good reason for getting rid of Steven.
7. If we go on and make these changes, Ernesto is going to quit. It may be good for the department but we can't risk it.
8. This kind of approach is all very well for Germany, but as the Group is organized under product groups in the rest of the world, you can forget about it.
9. We should have a Sales Director with a head for figures if we want to get round those controllers at Head Office.
10. We can give John responsibility for the new staff function in development as he's not much good at what he's doing now.

A complete cleanout of people and their relations together can be like a breath of fresh air in creating the optimal structure. A careful analysis of this process can improve the chances of solving the organizational problem. This is by no means saying that individuals and competence do not matter, it is simply a step in dealing with things in the right order.

In fact, the human factor is especially important in ensuring that a chosen structure is a success. If management can create a good group dynamic, the structure opted for will be less important. Conversely, the most perfect organizational structure cannot compensate for people who don't work well together. Organizational psychology is intimately connected with structure.

One of our clients, to the question of how a recent reorganization had gone, shrugged his shoulders and said: "New lianas – same baboons." The organization had undergone drastic changes but the same people were occupying the important positions. They had set the fashion in the company for a long time, and this made for an informal network of relationships. Meanwhile the reorganization bore a definite technocratic stamp, and the informal structures and behavioral patterns that lay beneath the surface were not taken into account. It was "business as usual", in the negative sense of the phrase.

Power and politics in organizations

Organizational theorists have been influenced for some time by Robert Dahl, the American political scientist and his definition of power, to wit: the ability to get a person to do something which he or she otherwise would not have done. Power is an important element in an organization's functioning. Its political aspect can be expressed in different forms:

1. Dictatorship or autocracy – an absolute form of management with power in the hands of one individual.
2. Bureaucracy – rules and policies as a basis for a legal system administered by the written word.
3. Technocracy – management utilizing the knowledge of experts.
4. Co-determination or joint management – coalitions of different interest groups which together control and satisfy mutual interests.
5. Representative democracy – where organizations are concerned, exemplified by shareholder control in a limited company.
6. Direct democracy – as in cooperatives or kibbutzim, in which key co-workers exert an influence on management and are involved in all decisions.

Organization politics have more scope in the administration and marketing functions of a company than in development and production.

Sources of power

Gareth Morgan in his book, Images of Organization, goes fairly thoroughly into a number of important sources of power. These are given below, with a brief commentary in each case.

Formal authority

Formal authority is a form of legitimized power and is the most obvious source of power in that it can both reward and punish. This type of authority does not need to include charisma (Greek, *gift* or *favor*), which arouses a special kind of loyalty or enthusiasm.

Control of resources

All organizations depend on a flow of resources in the form of money, materials, people, technology, etc. Control of these resources can be a formidable source of power both internally and between organizations. This may especially be true of money used for advancement, protection, threats or other means of creating loyalty, obedience, or silence.

Use of an organization's rules

An organization's structures, rules and procedures can be seen as tools that can often be used as political instruments. A hidden agenda often lies somewhere within an organization.

Knowledge and information

We can take control of the decision-making process ourselves if we can manage to interpret crucial questions on the agenda. The privilege of defining such questions is therefore an important instrument of power.

Control of interfaces

The division of work creates interfaces, both internal as well as between an organization and its stakeholders. Control of these interfaces is synonymous with the ability to exert influence in an organization.

Dealing with uncertainty

The ability to deal with unpredictable situations which constantly crop up in our day-to-day work, is a source of power.

Control of technology

Since the beginning of time, people have been able to use technology to manipulate situations to their advantage, and this is still true in the modern organization. Someone with a good knowledge of technology has a big advantage in shaping events.

Alliances, coalitions and networks

Contact with important people, access to sponsors, coalitions between individuals and groups, and the like, can all place those concerned in a position of power. An advance warning of change as a result of such contact is just one example of the sort of information that can bestow power. Clever people can build informal alliances and networks and in so doing, expand their influence within their organization.

Control of 'counter-organizations'

A trade union is one of the best examples of a counter-organization. When a group concentrates power in the hands of a few, a contrary force is often created that coordinates its actions to form a rival power block. This can give a disproportionate influence to any force that acts as a balancing power.

Gender and gender relations

Gender can play an important role, where some organizations have values that favor one sex over the other. This is a widely debated question nowadays. Certain feminists deplore the way organizations generally make it easier for men to climb the career ladder and reach positions of power and prestige. The blocking of women from top positions through prejudice or contractual differences is sometimes known as the “glass ceiling” effect.

Power already possessed

Power generates power, and it is easier to acquire power from a power base already established. The publication of the memoirs of politicians is a good example of how contacts and services rendered can later be used to extract favors in return. A favor done for a colleague can be an asset to be cashed in at a later date.

The above list is far from exhaustive. Suffice it to say that a discussion on possible sources of power can be useful to describe and analyze different types of power play and the political dynamic, which always remain hidden in an organization and are quite as important as its anatomy or physiology.

The organization’s psychology – organization culture

All organizations with a certain style are to some extent organic. With a knowledge of biology therefore, we would not be surprised to learn that it might be impossible to control every aspect of organizational development (this is especially true of large, global organizations). One of the basic, formative elements in an organization’s growth, a part of its ‘DNA’, so to speak, is the organization culture.

Example of an organizational structure’s growth over a period of time

An example of a structure’s growth over a period of time is 3M’s shifting European configuration, described by M. Ackenhusen, D. Muzyka and N. Churchill in the European Management Journal (“Restructuring 3M for an Integrated Europe, Vol.14 No.2, 1966).

The Minnesota Mining and Manufacturing Company (3M) was founded in 1914 and has its Head Office in St. Paul, Minnesota, in the USA. The Group has diversified into apparently unrelated products like adhesive tape, medical supplies, traffic signs and electrical equipment. At the beginning of this century, turnover was around USD 16 billion and the Group had some 85,000 employees all over the world. Growth and development had seen a great deal of structural change, as shown by the milestones in the European part of the organization, below.

1. 3M was originally organized to exploit the world market with American products.
2. A 3M subsidiary with its own managing directors was created in Europe in the middle of the 1950s. 3M Europe's strategy, like its products, differed from that of 3M in America and the company functioned according to local conditions. A close connection was maintained with Head Office in spite of vigorous subsidiaries in every country.
3. Sales volumes motivated investment in production as compensation for American imports. Subsidiaries owned their plants and sold to other European subsidiaries.
4. At the beginning of the 1970s, 3M came up against heavy competition from Japan and had to improve management competence at the national level. Management status in the subsidiaries rose and acquired kudos for many looking to further their careers.
5. At the end of the 70s, a European Office was established which lacked decision-making authority but was expected to coordinate activities between subsidiaries.
6. At this time, the demand for products manufactured for the European market had also risen, and led the subsidiaries to manufacture their own products, so they became increasingly autonomous. Early in the 80s came the call to coordinate the development laboratories of the subsidiaries in order to benefit the whole European operation. These development units were then told to report to a technical director

in the USA. The global potential in product development began to dominate local thinking.

8. To facilitate the exchange of ideas between Europe and the USA, both informal and formal networks sprang up, as well as links between technical teams – also established on a global basis.
9. In 1982, the European branch was expanded to include a director for each product segment. These directors acted as consultants to the subsidiaries.
10. European Management Action Teams (EMAT) were created by gathering together marketing directors from the larger subsidiaries. The chairman of one EMAT became the product manager for 3M in Europe.
11. Conflicts arose between the EMAT chairmen and the national managers who refused to carry out European product strategy.
12. Following an enquiry, a pan-European structure was recommended in 1986, one that would be based on product lines with subsidiary managing directors responsible for local needs. The American parent company decided not to follow these recommendations.
13. At the end of the 1980s, many of the global key accounts were calling for one contact point to take care of service. At the same time, it turned out that the EMAT move was not bold enough to deal with ineffectiveness in the subsidiaries.
14. In 1990, a new enquiry into the European organization came to the same conclusion as in 1986, i.e. that product lines should form the basis of the European structure.

In the following year, 3M in Europe went through a comprehensive process of change to introduce the new structure. European business centers were created, comprising product divisions that reported to a Senior Vice-President in the USA. The 17 subsidiaries were reorganized into 10 regional subsidiaries, most of them including more than one country. Subsidiary managers reported to a Senior Vice-President for Europe.

Culture – psychology

We mentioned earlier how important it was, when a company reorganized, to allow for its behavioral patterns and norms if there were to be real results. This is not something that can be left to one function, say Human Resources. It should command the attention of all management. Ingrained behavior below the surface has to be brought into line with the rest of the reorganization process. This important aspect of an organization usually goes under the name of organizational culture, organization values, or a similar term.

Organizational culture is a concept which first established itself on the management scene in the mid-1980s. An organization's culture comes from the values and achievements, defined or implicit, that have arisen through events in its history, through forceful personalities, or through consciously pursued development. Someone has said that the company culture was an employee's inner compass. It is a company's culture which determines the length and frequency of meetings, the mode of dress, the conditions for dialogue in the company, the length of reports, and so on. Company culture helps employees to feel that they belong.

The person who has perhaps done most to call attention to company culture is Professor Edgar H Schein of MIT, with his book, Organizational Culture and Leadership, which appeared in 1985. Schein affirmed how difficult it was to change a company's culture, a process requiring a special kind of insight. He qualifies the CEOs who have been outstandingly successful in this exceptional work as cultural hybrids. One example is Jack Welch, who famously revolutionized General Electric's corporate culture.

How can we identify and describe company culture? Edgar Schein has indicated seven dimensions relevant in defining it:

1. **The relationship between the organization and the business environment**
   Do we lead events, or do we passively follow developments?

2. **How people are seen to act**
   Are people inclined to be active and take the initiative, or to be passive, acting only on instructions? Are our actions rational, or motivated by impulses and feelings?

3. **How an organization arrives at the truth**
   Does this happen through a compilation of facts, through analysis and constant experiment, through what important people say, or through consensus?
4. **The temporal perspective**
   Is the focus on the future, the present, or the past? How far in advance are plans made?
5. **Theories of human nature**
   Are people basically good, evil, or molded by their environment?
6. **Inter-personal relations**
   Is it acceptable to show our feelings openly? How should employees act among themselves? How are decisions made?
7. **Approach to conflict**
   What is our attitude to conflict, how do we deal with it?

We can often understand cultures through a combination of these questions. Are there, then, certain cultural patterns that have been more successful than others?

A study carried out by Jim Collins, the well-known corporate strategy theorist, and his research team, (Collins J. C. & Porras J. I., Built to Last: Successful Habits of Visionary Companies), in which they analyzed and compared 28 companies over a period of five years, showed that top companies were able to combine two somewhat contradictory cultural norms: discipline and entrepreneurship. When organizations grow and become more complex, discipline takes on a greater cultural role in driving them forward. But discipline can also smother energy and risk-taking initiatives and lead to unacceptable levels of bureaucracy. According to Collins, a combination of discipline and entrepreneurship is the recipe for success.

The Swedish company IKEA is a good example of this. Ikea, with its founder Ingvar Kamprad at the fore, has been working on its company culture for years. Kamprad coined a number of catchphrases in his pamphlet, The Testament of a Furniture Dealer, (*En möbelhandlares testament*) which is handed out to new employees:

- Expensive solutions are often the hallmark of mediocrities.
- Making mistakes is the privilege of the person who acts.
- Don't waste your energy trying to convince me, just get on with the project.
- Constant planning has been the bane of many a company.

The importance of discipline, although mainly in connection with an awareness of costs, comes through in these quotes, which give evidence of a markedly entrepreneurial corporate culture. Ikea spreads its culture through symbols (myths and images), standard bearers, cultural ambassadors and through the example of its managers.

McDonald's, with its slogan of QSCV (Quality, Service, Cleanliness and Value), is another example of a well-established company culture. These values are the bricks and mortar holding McDonald's innumerable restaurants together around the world, and they are drummed into managers at McDonald's Hamburger University in Chicago. McDonald's has a heavy manual describing how their message is put into practice. All their new employees undergo a baptism of fire in QSCV, and films on company values are always run in the breaks. Ray Kroc, now deceased, founder of the McDonald's chai n, became a symbol of QSCV. There are countless other examples, including the story of how Apple and Microsoft, through discipline and entrepreneurship, graduated from a garage into what they are today.

A comprehensive study of national cultural differences has been carried out by Geert Hofstede, the Dutch researcher, and can be found in his book, Culture's Consequences. The framework used by Hofstede for his research can also be applied to throw light on cultural patterns in organizations. Hofstede worked with four variables:

1. Individualism versus collectivism
2. Power distance
3. Uncertainty avoidance
4. Masculinity versus femininity

Individualism versus collectivism

In an individualistic culture, individuals look out for themselves or for the interests of some form of intimate group, such as the family. In a collective or cooperative culture, people may belong to one or more inter-related collectives through birth or position but they are not allowed to act independently of each other. The collective thus looks after individual interests, but in return demands unconditional obedience. In this there is a whiff of sectarianism in that the interests of the collective are paramount.

Power distance

Power distance as a cultural characteristic is defined as the extent to which the less powerful members of a group expect power to be distributed unequally, and accept this. Inequalities exist in all cultures but vary in the extent of the acceptance of power distance. Where countries are concerned, the distribution of wealth is a good indicator of the size of power distance. In companies, apart from obvious pointers like salary or part-ownership, useful indicators are such things as difference in company car, use of a private chauffeur, or difficulty in reaching top positions.

Uncertainty avoidance

This variable indicates the extent to which people try to avoid situations of uncertainty by introducing strict norms of behavior and a belief in absolute truths. We can also look at the converse and instead ask ourselves to what degree individuals in a culture are nervous because of situations that can be interpreted as unstructured, unclear or unpredictable. Cultures that avoid uncertainty are active, aggressive, emotional and intolerant, while cultures that accept uncertainty are more considerate, less aggressive, unemotional and relatively tolerant.

Masculinity versus femininity

This variable shows to what extent a culture will accept feminine characteristics. Almost all cultures are dominated by men, and in masculine cultures, men are expected to be self-assured, ambitious, competitive and desirous of material success. Whatever is big, strong and fast is a role-model for others where men dominate. Women, in masculine cultures, are expected to be the guardians of children, the weak, and quality of life. Masculine cultures, then, are characterized by decisiveness and a striving for material success, while feminine cultures can be recognized by the values of quality of life and care of the weak.

Sweden offers an interesting example, in that Swedes generally have much individuality, a very small power distance, manage uncertainty well, and according to Hofstede's definitions, have a strongly feminine culture. This is by no means the case in Finland, Germany or the USA. Individuality may be high in these countries, but they are characterized by much bigger power distance, a greater need of fixed structures – read a lower acceptance of uncertainty – and a higher degree of masculinity. These differences are not always palpable but they may explain why a Swedish management style often founders in the USA, or why Finnish managers sometimes have difficulties in Sweden. As we would expect, such cultural differences are very relevant to an organization's anatomy and physiology. It can be difficult to introduce an organizational structure based on extreme decentralization, into a culture accustomed to strict norms and structures. Good leadership can often be undermined if it is seen to be characterized by a 'seeking' kind of uncertainty.

As with Schein's seven dimensions, Hofstede's model is very relevant in assessing organizations and organizational structures. Some of the pitfalls of forceful company cultures are:

1. They can lead to a sectarian climate where anything but the norm is brusquely dismissed. Good ideas can therefore end up in the waste bin.
2. There is also a risk that conformism allied to a high-powered culture impedes the work of change when it is necessary. If a company suddenly has to change its approach because of market conditions, changes may be slow to come. We can cite the example of Ericsson, which has had to meet the challenge of changing from a technology-driven culture, successful at an

early stage of the market's development, to a customer-oriented culture in order to remain competitive.

3. Cultural differences between countries are often forgotten when companies expand globally. A thriving business in Germany may not be successful at all in China or Spain.
4. Finally, we have to be careful that improvements to company culture do not compromise competitiveness. "Happy employees equals happy customers" is a dangerous over-simplification in business. In the long run, employees will be very *un*happy if their company does not survive and prove to be successful.

For the interested reader we recommend Hampden-Turner C. & Trompenaars, F., Riding the Waves of Culture: Understanding Diversity in Global Business, and Hofstede G., Cultures and Organizations: Software of the Mind.

Organization and societal culture

Company culture relates more to the work of an organization than to the society in which it finds itself. A English public servant with beliefs completely counter to communism will immediately understand what a Cuban or North Korean colleague has to say about bureaucratic intrigue in Peking or Pyong Yang. But he or she might be completely lost in a conversation at home in London with the marketing director of Sainsbury's talking about an advertising campaign. A large company in Japan functions in roughly the same way as one in the USA, Germany or in the UK, just as hospitals, theatres, trade unions or farms the whole world over tend to work along the same lines.

Every organization has its own value system defined by the work it does. In every school in the world, learning is the important thing and at every hospital, the care of the sick; in every business enterprise, it is the production and marketing of goods and services. As far as its cultural composition goes, therefore, an organization's work and goals must transcend the society it is in, if only so that it can contribute in the best possible way to the development of that society.

Summary and study points

- The human factor in the form of politics and inter-personal relations means that organizational change is seldom based only on rational, objective grounds. We will be presenting tools and concepts to deal with this in chapter 6.
- If an organization is to achieve the best possible results, its physiology must go hand in hand with its anatomy and psychology. When an organization's culture conflicts with its conscious goals, it usually has to change its culture.
- Organizations are seldom projections of management decisions. Organizations are growing systems that have to make adjustments to accommodate markets, employees, or other important stakeholder conditions.

CHAPTER 4

Organization and management

This chapter deals both with organization as a part of the management function and management as a function of the organization process. The term 'management' comprises a hodgepodge of parameters that control the development of an organization. Academically speaking, it comes under Business Administration but it is a disreputable cousin of the purer disciplines that share the same roof. Thousands upon thousands of managers the world over struggle with the complexity of management. If we were to think of management as an industry – which of course it isn't – then we would see that it is the world's largest, measured in time multiplied by salary, not to mention all the investment and training that has gone into it. Management, then, is a subject of gigantic proportions that can't be dismissed by referring to the academic tradition of cause and effect. This may be a useful exercise, but there are so many parameters that it is impossible to isolate certain effects from others and, trusting to all things being equal, draw logical conclusions. But it is just this that so perplexes everyone with a management responsibility. How are we to know what effect a particular action will have, as well as the causal connection between such an action and everything else that occurs in a complex organizational environment?

Management is no different to other fields lacking in scientifically tested theories, and it attracts all kinds of charlatans. In medicine, there is no acknowledged therapy for low back pain or lumbago. Sufferers are therefore susceptible to advertising promising a cure, whether it involves buying special editions of magazines or magnetic mattresses. In the same way, there is no acknowledged solution to specific management problems. There's a great demand for simple solutions to complex problems, which makes of management solutions a witches' brew of chicanery and naivety. However, because of its importance in the world today, management must be treated with the utmost seriousness. Energy and intelligence should be applied to all its aspects and intensive study should be given to it as a whole, as well as to the complex interplay of its different parts.

Management – origins and definitions

The word *management* comes from the Latin *manus,* which means hand, and *agere,* meaning to act. It is related to words like the French *manège* and Italian *maneggiare*, both having to do with the training of horses. The sense of the word comprises three functions:

- To lead: to motivate people and get them to perform to the best of their abilities.
- To control: to monitor performance and effectiveness in an organization.
- To develop: to specify goals and develop strategies.

A manager according to our definition, then, is someone who can take on the roles of

- coach
- controller in charge of operations
- strategist

These three roles together form what is sometimes loosely called *businessmanship*, something demonstrated by able management in all kinds of organizations, not simply those that are purely commercial.

Organization can be found in every aspect of good management. An organization has to coordinate its available resources optimally if it is to be run with maximum effectiveness. Naturally, we are not only referring to its structure but also to its working methods, i.e. coordination between the organizational building blocks. Something organizations often forget, in this respect, is to create SMART (specific, measurable, attainable, realistic, time bound) goals while avoiding unwanted *suboptimizations*.

Organization is of crucial importance from a strategic perspective. Organization – and change in organization – is perhaps the clearest marker of the work of change that the design of a strategic agenda can lead to. At the same time, there is a great danger that organizational change *per se* might be mistaken for the work of change. In spite of the maxim that strategy comes before organization, many organizations undertake change without first establishing a strategy process and strategic agenda. Firms under a pressure to perform often abuse the instrument of organization. New managers reorganize public and non-profit organizations all too often. It is therefore important first to formulate a strategic agenda that wins acceptance, then to plan organization so that it supports the strategic agenda. It might be useful here to think in terms of *zero-base*, with its freedom from all ties regarding persons, relations, power and politics.

The reverse perspective – management of the organization

Organization as an integral part of management entails a continual monitoring of structure, systems, goals, strategy and, not least, culture and the fundamental elements of leadership. These days, a manager of a business, or part of one, first has to master the basics in order to create effectiveness, i.e. to produce the greatest value in relation to productivity.

There are now a number of new work arenas (areas where people work) because the organizational roast is being carved in new ways. Let us quickly recapitulate the traditional way of thinking, which falls short of the effectiveness required today.

We did not need the term 'work arena' in the 1950s, as performance and effectiveness occurred in well-known locations such as the workplace, department, function or business unit. If people had been asked then how they judged the value of their work, they would have spoken of their performance, their department's results, or the results of their function or of the business as a whole. In the 1950s, these different elements could be added together to form a whole and the results of a company or business unit would be obtained by simple arithmetic. Individual performances could be added together to give the department's performance. Performances of departments could be added together to give a function's performance and the performances of functions added together to give a business unit's results. Individual, department, function and business unit, were all easy to understand and deal with so some other term was not required.

Now that we are in the 2000s with so many different kinds of work and time frames, we need a new term like 'work arena'. Nowadays, in addition to workplaces, groups, functions, divisions and business units, there is also 'horizontal' work and assignments in the form of processes, working groups, projects, teams, alliances, competence centers, and on and on. There are therefore many areas where work is done which do not fall under the old, vertical way of looking at things but instead refer to processes or flows moving horizontally. This may apply to customer satisfaction, customer interaction (the moment of truth!), as well as to physical and not least, to electronic flow. On the left in figure 7 is shown the simple logic of the 1950s, while the work arenas of the present era are indicated on the right. An understanding of such perspectives is essential, as goals have to be set and results achieved, with strategy work active behind the scenes.

The term 'work arena' is not necessarily one we all have to use. What is essential is that we understand the importance of setting ourselves goals in terms of results that can be accepted by all the places where work is done. The following questions are fundamental in working with goals and metrics.

1. What is to be carried out?
2. What result would indicate a success?
3. What work arenas are relevant for the work to be done?

4. Which metrics are most plausible for these arenas?
5. What goals, in terms of results, shall we set for each arena?
6. Which arenas can I (or we) contribute to?

Indirect work arenas

A problem that has to do with indirect and direct performance remains to be solved. Then there is the occasionally difficult matter of "internal customers", which crops up particularly in complex organizations. Internal customer orientation can be a problem when attention is diverted from external customers, leading to activity-based goals instead of performance-related ones.

1950 → 1989	1990 → 2000s	
• Tasks • Groups • Departments • Functions • Business units and group	• Processes • Campaigns • Teams • Special assignments • Cooperation • Projects • Themed groups • Head office	• Business unit • Alliances • Customer interaction • Supplier interaction • Programs • Departments • Functions • Competence centers

Figure 7. Development in work arenas

Suppose that there is a unit responsible for leadership development. The seminars do not entail direct contact with customers. The people taking part in leadership development are there for one reason, which is to work with their ideas plus whatever area is being focused on. Take quality control, for example. The people in charge of leadership development are faced with the problem of creating goals that are not simply activities but which can also relate to the company's performance.

This is often dealt with by measuring success on an activity basis, for instance, by looking at the number of seminars given, the number of participants, and how satisfied these participants are. These goals have the disadvantage mentioned earlier, i.e. that activities, rather than results, are measured. The people running the course could instead turn their attention to internal customers to get them to be more aware of external customers. In this case, the course management asked themselves what relationship quality training had with their external customers, and they set the following goals:

> "Three out of four participants should set goals for transit times and complaints that are meaningful for their customers, at the latest10 weeks after the end of the course."

This is a goal impacting on several fronts in that it combines time and frequency of complaints with the number of participants and the completion of the course.

All work arenas call for basic skills and the ability to organize. In many of the new arenas, there is no hierarchical authority for resource distribution, so some other authority has to take care of administration. This is one reason for the growth of project organization as a dominating paradigm in organization theory. In other words, people must be motivated to bring their skills and other resources to work arenas if there is to be less dependence on the old hierarchical powers dealing out reward and punishment.

Stability and creativity

The balance between effectiveness and innovation is one of the more important trade-offs that managers have to consider. An organization's effectiveness results from the best possible use of its resources to create the greatest possible value in relation to productivity. This is highly relevant to operations, i.e. the controlling side of management. If a company does not optimize its operations, its effectiveness, a measure of its ability to compete and survive, will suffer. The trade-off between effectiveness and innovation represents the balance between stability and change. More can be read about renewal and stability on page 94.

An organization's executives can never be expected to be as aware as its managers where the priorities of its different sections are concerned, which is why it's extremely important for managers at all levels to be aware of the balance between innovation and operative optimization.

The parameters for an organization's development change when its strategy changes, so the observant manager will be keeping tabs on strategic parameters. S/he will have the ability to gain acceptance for changes in structures or processes called for by a particular situation. Probably the greatest challenge for management is to create a climate for change before the majority of employees actually realize that change is taking place.

Strategy is characterized by change and fresh thinking and forms a contrast to a company's operations, its operative side. It can be a challenge to combine a strategy process with solid operative management, as both require different approaches, but it has to be done if the operative requirements of effectiveness are to be balanced with the strategic innovation that puts an organization on a sound footing for the future.

Good management therefore has both a controlling function, in that it seeks to optimize effectiveness, and an innovative function, in that it seeks to introduce new ideas. Good leadership is also necessary of course, together with the appropriate organizational processes. We stress the importance of a *fair process* when management has to get acceptance for organizational change, as employees can then participate in the intellectual journey that leads to a new orientation. A working model for this has been developed by Karlöf Consulting and is given in the chapter, "Tools and Conceptual Models", on page 101. Organization is an integral part of management, just as management skills are required to deal with organization.

CHAPTER 5

Aspects of organizing

As we have seen, there is no ready-made solution for shaping organizational structure in any given situation. Managers would therefore do well to look at a number of questions, given below, which should greatly facilitate the work of shaping an effective theory.

1. What is the ideological basis?
2. What are the symptoms?
3. How do we coordinate organization work?
4. What is to be dealt with **at the center** of the organization and what is to be **decentralized**?
5. *Organization limits* – where does the organization begin and where does it end?
6. How to *balance renewal with stability*?

What is the ideological basis?

Fundamental to any discussion about organization, whether new organization or otherwise, are of course business mission or operating concept, vision (ambition level) and strategies. We make this seemingly trivial statement because we have come across situations where organization seemed to be the goal, rather than the means to a goal. Although it may be a truism to say that an organization is started or reorganized in order to further its aims, this is forgotten more often than we would care to remember.

Organizing for change, shifting people around and so on is all very well, but the primary purpose of reorganization should be to promote the success of the organization on the basis of its business mission, goal image, etc.

Often used in connection with reorganization are the terms business mission, vision and strategy. Also used are operating concept, long-term goal image, ambition level, and so on. Other terms are also used and the semantics is not, unfortunately, always clear. Some may appear to be either vague or unrealistic, and some people may radiate positive energy when using their favorite term, but surely the lesson here is that we must be sure of what we are talking about!

Business mission (operating concept)

All organized activity is based on creating a value that is higher than the cost of producing this value. It is through this somewhat irrational sounding sentence that we can come to grips with the elements of the business mission.

A review (and update) of a company's business mission (an organization's operating concept) and a specification of owner expectations are basic elements of optimal organization. These two fundamental points will determine the scope and form the framework for continuation of the work. Ambitions and visions may have deviated from the business mission, as well as from owner expectations, hence the requirement for precision.

The business mission is comprised of

1. Needs and demand
2. Customers and distributors
3. Offering of goods and services
4. Core competence
5. Competitive advantage.

Outside the commercial sphere, a business mission can also be called an operating concept. A business mission indicates an organization's objectives and *raison d'être*. Beginning with a clear understanding of their business mission, management can often reinterpret the (customer) needs that lie behind actual demand and thus create a deeper understanding of the market dimension, i.e. demand, and where possible, innovation. Similarly, an informed discussion about who the customers are, is often necessary. In more and more cases it is not the end-user who determines demand but some other link in the consumer chain. Differences in the needs of intermediaries and end-users is often an important factor in strategic work.

A business mission serves an important purpose, not only for the market, but also for owners and employees. We recommend that expressions such as "leading", "best choice", or "highest quality" be avoided in the business mission. The best expressions are those which communicate not only desirable generalities but also more specific qualities.

A useful exercise to test and possibly improve a business mission is to go through the five defining elements, above. Here are some questions that might help.

1. What needs lie behind customer demand? Are there problems in connection with the use of a particular product or service? Should we use a PDS (Problem Detection Study) to find ways to better satisfy demand (see also the chapter "Tools and Conceptual Models", page 101)?

2. Concerning customer satisfaction – who exactly are our customers? Who makes the purchasing decisions? Are there gaps between end-users and distributors?

3. Are there more effective combinations of goods and services that can provide needs satisfaction? Can we add anything to make what we have to offer more attractive, or take away anything that costs money but does not add value?

4. Do we need to have more skills and expertise than we have now? Are we living on old competencies that are no longer valid?

5. What separates us from the competition? How do people react to our brand? What advantage do our customers see in us?
6. Have we formulated our business mission on the basis of customer needs? Is our business mission credible, and what code words do we want in its formulation?
7. How can we exploit our business mission in respect of co-workers, customers and owners? Should we test our business mission to get honest feedback?

Vision/ambition level

The term 'vision' has had a mixed reception. In some environments, it is seen as an important element of the organizational ideology. Some people prefer to speak of a "goal image", or "ambition level". The romantic-sounding term 'vision' has sometimes led to a flight from reality, while the business world is littered with unfulfilled visions. Properly used and with a solid basis in reality, it is an excellent aid in the creation of energy and motivation. Used in combination with a business mission it can also give a sense of direction.

Vision in the sense of something seen in a dream is the term used to describe a picture of a company's situation in a relatively remote and desirable future. Willi Railo, the sports psychologist, defines a vision as a "barrier-breaking mental picture of a desired situation". The word barrier-breaking is important in Railo's description. The most important aspect of a vision is that it challenges the comfortable present, calling for action and change.

Vision plays an important role in strategic work, as it defines w hat future success will mean to a business. A vision should:

1. portray the long-term aspirations of a business.
2. set an ambition level for strategy work.

If a company's vision means that in five years it will go from being a local player to a leading global one, then decisions, actions and the appropriate investment will be necessary in the present to make this possible. If its vision instead aims at achieving technical supremacy in a particular area, the series of decisions and actions involved will naturally be different.

It is important to remember that there are two main types of vision. The first kind is based on a visionary or entrepreneur with strong convictions about where the business has to go. Examples are Ingvar Kamprad (IKEA), Erling Persson (H&M) and Lars Magnus Ericsson (Ericsson). The other kind of vision, by far the most common, is not so much suddenly arrived at but worked out step by step. Through discussion, a management group can achieve a long-term image of a goal based on conditions in the company, trends in the business environment, and intuition. This kind of vision builds on the group's strategic ability rather than on strong entrepreneurial convictions.

One might say that only the first type is a real vision, while the second should really be called a long-term projection or desired future position. However, our experience is that it can be misleading rather than helpful to make such distinctions. In practice, a vision is often a combination of these two main types.

As we have said, intuition is an important element in the emergence of a vision. It is therefore important to have people with an insight into the business and the ability to think creatively. It may even help to call in a professional to pose questions, possibly challenging established assumptions while acting as a source of inspiration. This person might be a consultant, someone from a trade organization, a researcher with new ideas, or a role model from another industry.

Apart from the right person, it is important to have the right documentation when working with a vision.

1. **Owner expectations**, or the expectations of a more senior organizational level, must be clear. The realization of a vision should lead to the fulfillment of owner expectations. A good idea is to hold a seminar with the company board to discuss the vision in question.

2. **The business mission** (or operating concept in non-commercial environments) forms a framework for the process, although it may be challenged by a vision.

3. **The business environment**, with its trends and developments, must be taken into account, either in the form of an analysis or through the involvement of people with the required expertise. A company vision must be in harmony with the expected development of the industry, or with the business environment in general.

4. **Current strengths and weaknesses** of the business, in particular those of its co-workers and customers. It is an advantage if a vision indicates a direction that makes it possible to use the strengths of the business, while at the same time steering clear of its most serious weaknesses. Here we would like to point out that it is crucial for people working with a vision not to be unduly worried about conditions around them. We will be introducing some exercises in connection with this later.

We have seen that a vision can be a powerful tool to motivate and impel progress in a business. We have also seen examples of visions being put to the wrong use. Towards the end of the 1990s especially, visions were used to communicate with shareholders rather than to motivate co-workers. Visions ("we want") were mixed up with prognoses ("we believe"), which contributed to the proverbial bubble that burst. A vision should not be expressed too formally, as when the following PM went out to managers of one organization:

> "Departmental visions must be handed in to central administration by 24 April, at the latest, in order to be listed for the Spring Planning Conference on 4 May."

Some visions are justifiably seen as vague or overstated. One-liners on the theme of "biggest, best, loveliest", which could be used for any company at all, come to mind. In our experience, there are two reasons for this. One is that a vision may have been produced to satisfy some requirement from a head of planning or the owners, instead of being the guiding star for the development of the business as a whole. The other has to do with how a vision is communicated. We have seen company management that has been through a well-defined process to arrive at a vision. Different aspects of the business were clarified, trends analyzed, and scenarios elaborated.

For management that has been through an intellectual journey, a vision can have deep significance and intensity. However, when this vision is then communicated to others who have not gone through the same journey, it runs the risk of seeming devoid of meaning. Desirable as it may be to find a vision that can be expressed pithily, there is a great danger in summarizing it and failing to express either what it means, or the reasoning behind it. One of the challenges we face when we work on a vision, is to raise our sights and leave imminent, operative daily tasks behind. It can be difficult to think five or ten years ahead when customers are coming with questions and staff are knocking on the door. As with strategy work in general, the task of formulating a vision must be pursued with extra energy and in parallel with operative work.

A role model can be a powerful tool for raising ambition levels in strategy work. Suppose you are a high jumper and you think the best you can do in a five-year period is 2.41 m. You then see a fellow athlete jump 2.45 m. Now it is likely that you will try to raise your target. If the other guy jumps 2.45 m, your barrier-breaking mental picture of a desirable future might be to jump 2.50 m! The same thing is more or less true for businesses. Some companies base their visions on competition with role models:

- To be the cycle industry’s Nike (Giro Sport Design, 1986).
- To be as respected in 20 years as Hewlett Packard is today (Watkins-Johnson, 1996)
- To be the Harvard of the West (Stanford University, 1940s).

Strategy development

Like many other words in the management glossary, ’strategy’ is used for any kind of mental activity that precedes action. A definition that we have found useful is,

> “A pattern of decisions and actions in the present, undertaken to make the most of opportunities and secure future success”.

The modern view of strategy is that it is a learning and innovative management process, a blend of inspiration, experience, facilitating and review. We believe that consultants should be used in this process, but not to form the strategy itself. This should be left to management. A strategy program can be set up through the steps in the diagram.

We speak of a *rolling strategic agenda*. Strategy is thus not just one thing but a shortlist of points essential for an organization's development. We have developed some sixty strategic type situations to stimulate creative thinking in strategy work. All strategy work is of the nature of an investment. This means that your results may suffer this year but that things will be looking up in years to come. At the same time, the need to get on with a strategic program may never be acute in the same way that operative questions often are, when invoices must be sent, materials purchased, people appointed, and so on. Strategy never comes calling, so it must be pursued with great energy. Rather than isolating ourselves once a year on a mountaintop or on an island in the Swedish archipelago, we should try to find a process that allows our strategy work to flower. We certainly shouldn't involve strategy work in our organization's

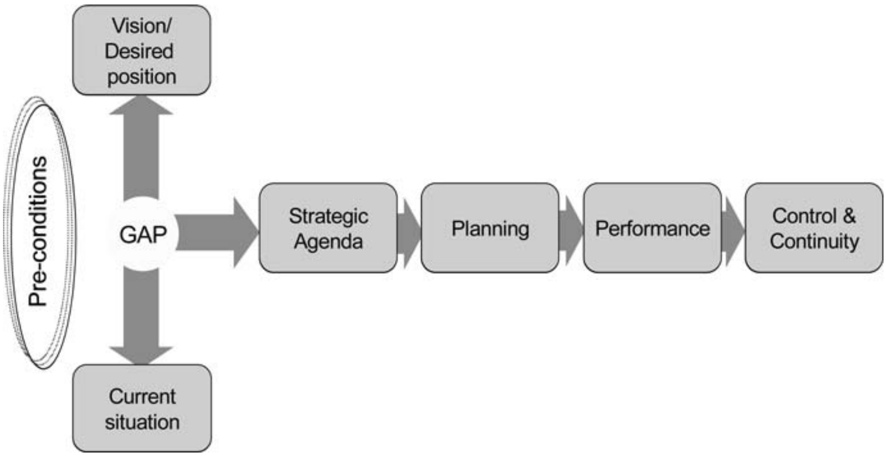


Figure 8. Generic strategy process

daily operations. A good solution is to meet every three or four months with a rolling strategic agenda.

For every point on a strategic agenda, there are always conditions and assumptions that should always be spelt out. Write down the assumptions on which a particular point on the agenda is based, and return regularly to them to see whether anything has changed.

If we were in the business of building supersonic aircraft and wanted them to be able to start and land all over the world, our planning would be upset if New York's Port Authority would not allow them to land and we had not taken this into account.

Our definition of strategy can be used at different organizational levels. In figure 9 can be seen three important organizational levels requiring different initiatives.

Portfolio strategy

A portfolio is a group of business units with a common owner. A portfolio can be synergic, as for example an IT company that runs a consultancy, as well as training and software development.

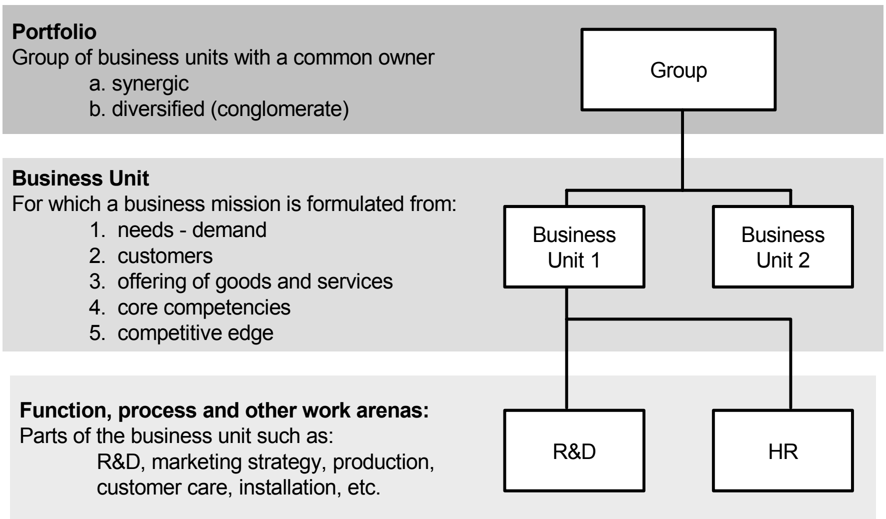


Figure 9. Three levels of strategy

A portfolio can also be diversified as in the case of General Electric, which has a financial arm, manufactures aircraft engines and provides products and services for the energy industry. A local authority is an example of a diversified portfolio that provides care for the elderly and runs schools and an engineering department. A portfolio strategy can be used to handle a number of issues.

1. Ensure that business units are led both operatively and strategically.
2. Recruit, develop and phase out leaders.
3. Acquire and dispose of companies (portfolio building).
4. Make investment decisions.
5. Corporate governance
6. Value performances of a portfolio's units.

There are portfolio managements that underperforms, as the value of units is often greater than the value put on them by the stock market. Hence the derivation of the term 'discount on closed-end investment', which is an indicator of a portfolio's management performance in respect of its units.

It's one thing to manage a business unit, it's quite another to take care of a portfolio. The business unit manager will develop new products, work with after-sales, penetrate new geographical markets, segment customer groups, differentiate a product, etc. If s/he is talented, there may be promotion to a portfolio management position. Then it's a different ball game. Now it is very much like being a juggler keeping all the different balls in the air at one time. Many a good manager has come adrift in charge of a portfolio. The old drive, accustomed to other parameters, can be all too easily misguided into making unwise acquisitions. or more on this, see "Division Organization" on page 16.

Business strategy

The business strategy of an organization (also called competition strategy) is a pattern of decisions and actions in the present undertaken to make the most of opportunities and ensure future success.

The challenge here is to win customers and market share in fair competition. We often hear of the 'battle' with the competition in a strategic context but it would probably make more sense to focus on the 'love affair' with the customer.

Functional Strategy

Functional strategy covers an enormous area but is not given the attention it deserves in strategic thinking. We might say that its sphere of influence includes all the parts of companies and organizations that exist under the conditions of a planned economy. Let us briefly summarize the theory here, as it is very relevant to organizational questions.

The majority of organized operations are run under the conditions of a planned economy. We refer not to the tax-financed public sector but to all parts of companies that deliver to other parts within the same organization, where the receivers of goods and services cannot choose between suppliers. If we have opted for one marketing department, we can't then purchase marketing services from somebody else. If an airline has its own technical and operative department, it's not going to hire planes, pilots and stewardesses from another company. In this sense, its own departments enjoy a monopoly.

This is a fundamental aspect of economics and was recognized by Ronald Coase in his article, "The nature of the firm", which won for him the Bank of Sweden's Economics Prize in 1992 in memory of Alfred Nobel, many years after it was first published. The question may be formulated like this: When is it to our advantage to make use of a planned economy with its internal business and when should we focus on external transactions and a market economy?

As we have seen, all organized activity is based on effectiveness, that is, on creating a value that is higher than the cost of producing this value. This is illustrated in figure 10 below.

This can be useful for clarifying the conditions in strategic work. On the basis of the definition of effectiveness as a balance between value and productivity, we can now derive the five most important questions in the study of effectiveness.

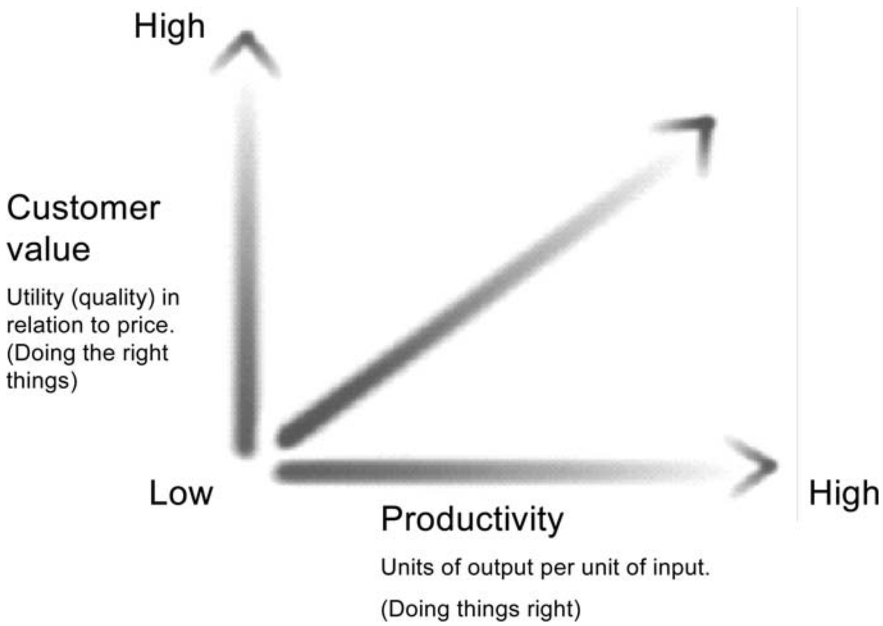


Figure 10. Effectiveness as a balance between productivity and customer value

1. **How should we define what we produce and deliver?**
   This question does not pose any difficulty when we are talking about passenger cars, for example, or telephones, but it is often a different matter where service organizations or staff units are concerned. For instance, how do we define what a marketing department produces or delivers?

2. **How do we calculate cost per such delivered unit?**
   It can be estimated in kronor per piece, man-hours per delivery, inspections per hour or assembly hours per vehicle.

3. **Which individuals assess what we produce and deliver?**
   In a free market, it is we individual consumers who make the decision to buy or not to buy. In inter-organizational systems, assessments are made by different people based on different criteria at different times in such a way as to make this question much more difficult to answer. Who can assess, for example, what an organization's personnel and research departments deliver?

4. **What criteria do these individuals use for their assessments?** This question is the most difficult one of all to answer. It can often be beneficial to carry out a survey asking different target groups about their criteria for assessing products but it is not uncommon for such target group criteria to be misinterpreted and this can have serious consequences for an organization. Criteria offered should also be weighted by target group, for example by allocating points.

By tabulating, discussing and attempting to answer these four questions, organizations will find that they not only have a valuable basis for their strategic work, but also one that will assist them with strategic decisions and actions. The diagram can also be used to discuss a company's position in the relevant market. In order to do this, answers must be found to the following four questions:

1. Where in the diagram is our company vis-à-vis our competitors and/or various benchmarks?
2. What direction should our company take?
3. How much time does our company have?
4. How should this be done?

Bengt Karlöf's book, Effectiveness in Management – the Missing Core of Business Administration (*Effektivitet i ledning — Företagsekonomins saknade kärna*) Studentlitteratur 2001, is recommended to the reader interested in going deeper into the subject.

What are the symptoms?

In the many cases when organizing is used as a "power thing" or to prove that somebody's doing something, it is especially important to analyze why something is not ok or why it could be done better. All too often, reorganization becomes a case of over-reacting to a badly formulated problem. Reorganization is often wrongly used to resolve personal conflicts or questions of competence. We strongly recommended an analytical review of symptoms and underlying problems, combined with a creative search for solutions.

At other times, there may be no symptoms or problems, simply an idea of how effectiveness in operations or renewal could be improved. When this happens, these ideas should be carefully tested by a group of devil's advocates, individuals with their feet firmly on the ground. In these situations, competent consultants or other people from outside the firm with a good grasp of the business, can be of help.

Is there an organizational problem?

We should first ask ourselves whether the organization's structure is at fault, or whether the problem can be attributed to personal shortcomings, poor leadership, or inefficient processes. Has it got something to do with the company culture, or perhaps certain strategies aren't working?

Not always an organizational problem ...

A large international company often heard that colleagues in Prague needing assistance from its development people in Sydney were often left in the lurch, as several management levels were involved and the decision process therefore slow. As a result, one of the company's basic principles, speedy customer service, was jeopardized. Financial controls intervened at several stages, so that even if approval eventually came, it was already too late.

New management made it possible to use €5,000 per year with no questions asked, in order to utilize the Group's expertise and seize the chances offered by the market. The money was put to good use and considerably speeded up processes in meetings with customers, contributing to improved business prospects.

The organization had created boundaries difficult to bridge by the implementation of rigorous financial controls, something that can be found in many large companies, and so simple steps were introduced to circumvent the bureaucracy that was hampering the company's business.

When looking at symptoms, we should consider both correlation and causality. There is certainly going to be a correlation if problems arise in a business unit when the management changes, but we have to go beyond this connection to clarify the chain of cause and effect (causality). Any number of correlations can be found in management, but it is not so easy to establish causality. Before we do anything to the company structure, we should ask ourselves a number of questions to see whether organizational change is in fact the answer, as some other measure might actually be better.

Michael Goold and Andrew Campbell are well-known writers on organization and are the authors of "Designing effective organizations: how to create structured networks" (Jossey Bass 2002). The authors begin by saying that organizing is neither a science nor an art. Organizational structures are seldom the result of methodical planning. They develop organically, often through political influence. In many cases, managers know that their organizations aren't working well, but few are the ones who know how to put the situation right through systematic action. Rearranging things often means enormous complications with a seemingly endless list of trade-offs. The authors have formulated nine questions to serve as diagnostic tools in respect of organization structure. Here they are briefly discussed.

1. **Is the organizational structure appropriate to the situation?** When it formulates a strategy, a company must ask itself two fundamental questions: Which market will we compete in and how can we create a competitive edge in this market? The question is thus the extent to which the organization's structure suits its market strategy. There should be no doubt about which segments are served. A structure should be effective in respect of the elected segments, at the same time supporting identified competitive advantages. If there are advantages in cross-border combinations of various kinds, these links should be given special attention.

2. **The parenting aspect – how does the organization fit into the whole?** Head Office or some other authority will have various values that it is important to remember. Whether it be within the framework of a company, organization, or group, the larger

organization almost always has to be considered in the event of an organization's design.

3. **Is the organization's structure appropriate to what drives its people?** When there are problems in an organization, its managers are often too quick to lay the blame on personnel. If an organization has not adapted to the strengths, values and attitudes of its people, the problem will lie with the organization's structure and not its personnel.
4. **Has consideration been given to those restrictions that could impede the organization?** All organizations have to live with restrictions that limit the scope of its people to act. These may be laws or other external factors, but can also be something internal such as an information system.
5. **Have the needs of specialist cultures been considered?** There are certain units in most companies which should be able to keep and develop their own culture, as they will need to work in a way that deviates from the norms of the rest of the organization.
6. **Has the structure been designed so that attention can be given to important, but possibly sensitive, links in the organization?** Cooperation between organizational units is vital, however they may be defined. Self-managed networks are often the most effective way of achieving this. Difficult links may call for special consideration when structures or working methods are designed.
7. **Is the hierarchy too complicated?** Large companies often have many 'relational points' in the higher levels of the hierarchy. Apart from the headquarters and other designations controlling divisions, functions and geographical regions, there may be lots of other units whose existence should be questioned.
8. **Accountability, performance and reporting.** An important issue is whether performance should be accountable for within the framework of all forms of decentralization. Look espe-

cially at shared responsibility and units whose performance is hard to measure.

9. **Will the organizational structure aid the development of new strategies and create change?** A well-designed organization will be flexible enough to handle what the future brings while dealing with the present. There will always be a need for innovation and flexibility in organizations, but whether they can respond to these needs depends on how well they are designed.

How do we coordinate organization work?

Every organization has its own philosophy, whether expressed or not, on how organizations should be led and controlled. Forms of control are the practical expression of such a philosophy. An organization's structure and its culture can both be affected by its management philosophy. This was the case with the Swedish Road Administration (*Vägverket*), when it was looking for a simpler way to manage delivery to its clients (users of the roads). The solution was to define the main processes, which then led to the process orientation of the organization.

An important issue in management philosophy from an organizational perspective is how the work of individuals should be coordinated with the units of the organization. Too much fine-tuning can easily lead to a morass of compromises and extreme completion times. One of the most substantial advantages of small-scale production (and therefore large-scale disadvantages) is the energy it takes to hold an organization together. The larger an organization becomes, the greater the share of existing energy taken up in the coordination of its units. But such coordination activities are a direct consequence of the division of work and they are just as important as the careful differentiation of work assignments.

Some of the different instruments that can be used to create coordination are meetings, project groups, work management, regulations, plans and budgets, negotiations and processes. The choice of instrument really depends on how routine or exceptional the situation is. Routine coordination, as with workstations in a production line or activities in an invoicing process, can be established by direct management and standardized procedures. Where the question of coordination arises less frequently, plans, budgets, negotiations, committees, etc., must be resorted to.

Jacobsen and Thorsvik[3] essentially give six ways of coordinating activities:

1. **Mutual give-and-take**
   Co-workers automatically adapt their behavior so as to integrate effectively with one another. This is an advantage of small-scale operations and is only possible in the kind of environment where everyone knows what everyone else is doing.
2. **Direct control**
   Coordination is done on a hierarchical basis, where a superior level has the authority to coordinate activities through formal power. Depending on the type of work, it is usually difficult for a manager to coordinate more than from ten to twenty employees. A new supervisor is therefore required when groups get larger than this.
3. **Standardization of work assignments**
   Rules, processes and procedures are used to coordinate when assignments are carried out. This kind of formalized coordination takes place to some degree in most organizations, but managing by rules in its purest form died a death some time in the 1930s with Weber's ideal-type bureaucracy.
4. **Standardization of results**
   The result, i.e. the outcome of a particular assignment, is standardized. This is a milder form of coordination that can fit in well with decentralized organizations. Management indicate *what* should be produced but do not control *how* production takes place (c.f. management by objectives).

[3] Jacobsen, D. I. & Thorsvik, J., How Modern Organizations Function (*Hur moderna organisationer fungerar*).

5. **Standardization of knowledge**
   Coordination takes place as employees possess particular knowledge (specialization) that is known to the group. A framework is established by connecting knowledge to roles, resulting in effective coordination in the group. An example of this is an operation theatre in a hospital, where people have specific knowledge and a role and on this basis know how to coordinate their activities.

6. **Standardization of norms**
   Once an organization has a core of shared values, prescribed standards and behavioral codes can be established to regulate employee behavior. For more on this, see *organization culture*.

Organizations usually handle the coordination of its people and units through a combination of these mechanisms. A useful exercise might be to discuss, on the basis of the above information, how your own organization should be managed. What demands would this place on management and the organization itself?

Centralized or decentralized?

One of the most important issues in organization analysis since the middle of the 1980s has been the relation between centralization on the one hand, and decentralization and delegating on the other. This is as true for business and commerce as it is for the public sector and non-profit organizations. The question is, to what extent should an organization's center delegate decision-making to peripheral units and managers at different levels in the company hierarchy?

This issue arose under the pressure of competition and the need to be closer to customers and markets at a time when organizations in the public sector were being exposed to financial restrictions. This was underlined in Europe by the convergence factors for the introduction of the Euro. A number of important issues came up:

A. Chief executives often lost touch with the grass roots and the knack of dealing with customers – perhaps more critically, with non-customers, who represented an important slice of the market. Proximity to the customer interface in fast-moving markets with low customer loyalty can be of decisive importance.

B. Large organizations lacking decentralized decision-making often got embroiled in internal business instead of focusing on their customers. Companies can easily become black holes, with large sections of the organization besieged by internal questions.

C. An incipient interest in entrepreneurship and better qualified middle managers facilitated the formation of competent decision-makers at several levels.

D. In many large centralized companies, management often becomes embroiled in power struggles rather than focused on good performance.

There may be a shift of power outwards, to parts closer to the customer, as decentralization spreads in an organization. As a consequence, the role of the center, often called the 'parent role', may be called into question by those at the periphery. The parent role often features in organizations divided into divisions or business areas, and must be competently handled if the organization is to remain intact. If the center does not deliver value to the outer parts, the organization – much like the old Soviet Union or the Roman Empire – will gradually fall apart. Some of the more important functions of the parent role are dealt with in "Division organization" on page 16.

The most important and at the same time most difficult trade-off is however between economies of scale that are often rational and computable, and small-scale advantages that have much to do with employee behavior. We have seen shocking examples of decentralization to an almost anarchical degree, where swathes of a company possessed an autonomy that left them free to do practically whatever they liked. In a certain, previously state-controlled environment, we noted that there was no central unit with the responsibility for accounting code rules and control parameters, which meant that management never really knew how the business was performing financially. Construction work in a peripheral part of the business could be entered as a cost and thus be charged to the income statement, while somewhere else the very same work was activated in the balance sheet and written off. We also noticed that there was no decent analytical guide to deal with the difficult juxtapositioning of centralization and decentralization. On the one hand, economies of scale costs had to be exploited to create costs that could be competitive but on the other, there had to be flexibility and adaptation in individual cases to allow for customer requirements and market trends. It is important, then, to pay attention to the following parameters:

1. Are there **advantages of skull and scale** to be exploited?
2. What is **strategically important** to the business?
3. How much **local initiative** is required?
4. How can we integrate management so that it has a **complete overview of operations**?
5. What **small-scale advantages** can be utilized? For example:
   a. Motivation
   b. Energy in communication
   c. Customization
   d. Optimal processes
   e. Economy of resources
   f. Professional flexibility
6. How can we create a **learning culture** from within the organization as well as from without?

The advantages of small-scale operations are particularly important but often tend to be overlooked. People in small companies find it easier to understand processes as part of a whole, than their counterparts in large organizations. Specialization and the division of work are taken to greater lengths in large companies. The bigger the company, the more difficult it is for people to come to grips with their role in the whole picture. While many large companies understand the importance of helping their people to see the bigger picture, there is no getting away from the fact that this is much easier in smaller organizations.

Many large companies have tried, with varying success, to benefit from small-scale advantages through decentralization. Best remembered perhaps are the efforts of Alfred P. Sloan to inject agility into a behemoth when he was Group Chief Executive of General Motors (GM) in the 1920s. Sloan's organizational model – he called it "federal decentralization" – was firmly based on business unit thinking and came to be a model for many other organizations. Gradually however, GM came up against problems that during the 1960s led to big reverses. The more powerful of the business units wanted to take control of the whole organization and the corporate structure began to suffer from excessive bureaucracy. The divisional structure had contributed to what it was supposed to counteract – sluggishness in the organization. Academics and practicing managers agree that group management should get involved as little as possible in the day-to-day running of strategic business units and not bother them with unnecessary bureaucracy that will only hinder their ability to compete. (For more on this, see page 17).

If it all came down to the advantages of skull and scale, there would only be one company in every industry. But national barriers and small-scale advantages mean that there are limits to the advantages of skull and scale and to how big a company can be. Let us take a look at some of these small-scale advantages and see how they can optimize the effectiveness of a company's organization.

Communication and control are perhaps the most obvious advantages of small-scale, or conversely, disadvantages to large-scale operations. In a small organization, relatively little energy goes into communicating and maintaining an overview of activities. Everything generally only needs to be written or said once, and the strategic parameters are familiar. We have a good idea that this is true simply by noting the opposite in large companies, where studies carried out in the USA have shown that up to 60 per cent of a manager's time can be spent in internal communication.

This means that the same thing is said, written and listened to time after time, which is enormously detrimental to productivity. A large organization can develop like a neutron star or a black hole: the greater part of its energy burns up and only a very small amount escapes to the environment around. Giant organizations like General Motors would not contest this observation. Effectiveness plunges and productivity suffers, resulting in the need to raise prices and sell off units, which prevents the company from growing further. In the small environment, there is greater effectiveness because communication paths are shorter, energy expenditure is low and control palpable.

Employee **motivation** is considerably higher in small companies for a number of reasons. Studies carried out by Frederick Herzberg and others have shown that positive motivation is created by work-related factors, while negative motivation comes from various company hygienic issues, such as unnecessary rules, bureaucratic procedures, etc. Setbacks and successes are felt to a much greater extent in small companies. Individuals are closer to customers and count for more in relation to the whole. Other factors promoting motivation come into play that make people more industrious and interested in their work. All of these advantages are not mutually exclusive but feed off each other. A sign of a motivated workforce is that employees mobilize greater energy at the workplace. People feel better at work and spend more time on the job, so that both employer and employee come out winners. The employer becomes energized, the organization benefits and employees enjoy a richer work experience.

Organizational **flexibility** is important, especially in countries with strong unions, as in Western Europe. In small companies it's natural to help each other when possible, regardless of the nature of the problem. This natural reflex is often stifled in large organizations. In a benchmarking study in the aviation industry, it was shown that large companies had much higher costs for the maintenance of light aircraft. This was mainly because personnel in the small airlines helped each other over hurdles, while in the large organizations specialists had to be called in even for trivial jobs.

The concept of **Customer value** is more alive in the employees of small companies than in the employees of large ones. Closeness to the customer, i.e. the market, means that a feeling for everything that effectiveness represents is much more developed in small companies. The customer's reactions, feelings and behavior seem to be almost inbred into small companies and so flexibility is great. As with other small-scale advantages, this of course may not be true everywhere and at all times.

Economy of resources is better developed in small companies. Quite simply, the money goes further. Large organizations are less price-sensitive and not as fussy about value for money.

Processes and the whole picture are generally understood more easily by people in small companies than by their counterparts in large organizations. Specialization and the division of work are taken to extremes in large companies. The bigger the company, the more difficult it is for people to come to grips with their role in the whole picture.

Small-scale advantages can mainly be put down to employee behavior, so we need to take a fresh look at this area in order to maximize them. This, we believe, is going to be an interesting area of development in management and business administration generally. We would ask readers to think about how small-scale advantages can be used and how they can contribute to the effectiveness of their own organizations.

Learning as a paradigm for the development of organizations has been shown to be of great value. It's extremely difficult to prove that a certain amount of learning influences an organization's success. Knowledge, learning and human behavior cannot be measured in terms of money, like a company's income statement. For a couple of decades at the end of the 1900s, there was a focus on knowledge, as in *knowledge management*. It has gradually come to light that the dynamics in the learning process are far more important than the level of knowledge in absolute terms. Some of the really big knowledge-rich companies like IBM have experienced serious, almost overwhelming difficulties because of a concentration on knowledge for its own sake rather than an interest in calibrating the learning process.

We have encountered situations all too often where the branches of an organization have failed to learn from each other. Key figures might have been exchanged but there is a world of difference between a recitation of facts and the learning process and this is not always appreciated. This process calls for meetings between people, particularly for instance where tacit knowledge (knowledge that can't be codified and stored) is concerned. Learning within organizations, as well as outside them, is therefore an important prerequisite for decentralization.

The authority behind decisions

The information flowing through an organization should be organized so that people know where decisions are made and who makes them. This means that authority should be clarified in order to initiate, approve, carry out, or check different types of operative or strategic activities. The authority for making decisions should be clear both vertically and horizontally. Take for example decisions on product specification. Should they be taken by the marketing or the technical department? Ideally, the best-informed person on the issue in question should have the authority to make decisions, but in reality such people are not often high in the company hierarchy. The movement towards the flat organization came in the 1980s and 1990s when it began to dawn on people that the best information is often to be found near to the center of events.

There is every reason to study decision theory and psychology in dealing with organization. For example, we may often be tempted to make decisions that are positive for our own unit but perhaps less than optimal for the whole organization. The authority to make decisions, then, must be distributed throughout an organization with a coherent picture in mind, much in the same way as the encouragement of motivation.

Organizational boundaries – where does our organization begin and end?

Organization of course does not stop with our own organization. We can study it right from the processing of the raw material, or its equivalent, up to the end user and consider the division of work in the entire value chain. In management this is called vertical integration, as opposed to horizontal integration, which refers to a range of products, i.e. of goods and services offered to the customer. We might also reflect on what should be produced within our own organization and the advantage in contracting out certain other products.

The concept of *outsourcing*, and its opposite *insourcing*, have become popular in the last few years. Outsourcing used to be called a make-or-buy analysis many years ago and was mainly applied in industry as a model for deciding when something should be manufactured in or outside a company.

There is a clear connection between competitive pressure and degree of integration, i.e. diversification. The lower the competitive pressure, the higher the degree of vertical and horizontal integration – and diversification mania increases. This is quite clear if we look at telecoms, airline companies or energy production. At a time when traditional monopolists were substantially expanding their delivery capacity, what was then Swedish Televerket were producing their own exchanges in Nynäshamn. All the European airlines had their own heavy maintenance and the energy producers carried on traditional production as well as doing their own distribution and sales. Perhaps the main reason for such zealous diversification was to be found in a combination of illusory synergies and a natural ambition for one's business to keep on expanding.

The trend towards outsourcing has meant that departments requiring a high degree of specialization are now farmed out to specialist companies. In the electromechanical industry, with such examples as Flextronics and Partnertech, this is often called contract manufacturing.

We can study how businesses have been organized into the value chain's natural components in large, integrated markets where there are no barriers in the form of tough legislation or national borders. The USA is a good example of a country that has for a few hundred years fulfilled the conditions for low regulation and a free market. It has therefore been quite natural for them to organize themselves on the basis of the division of work and work specialization. When outsourcing is criticized by American academics, it is probably because they are not familiar with the European tradition and its barriers in the form of national borders or the regulation of entire sectors.

The article, “The nature of the firm” (see also page 77), written by the British journalist Ronald Coase, deals with the questions of where a company begins and ends, and why, when it is advantageous to have internal transactions and a planned economy, and when a change should be made to external transactions and a market economy. The rapid development of outsourcing in IT and the telecoms industry perfectly illustrates the typical course of events. We want to have control over a relatively new, unknown business phenomenon, being inclined to view it as a competitive advantage for our organization. This applies to most things, from environmental questions to IT. An organization often has a more or less explicit desire to learn something about the new phenomenon and tends to retain the business in a planned economy with its internal transactions. The product gradually develops into a staple and no longer represents a competitive advantage for the organization. Companies emerge to exploit advantages of skull and scale. These companies become specialists with an effectiveness that our organization cannot match.

Company management these days finds that outsourced IT is 20–30% cheaper than their own production. In addition, there is the advantage of fixed contracts and the absence of internal purchasers pestering the organization for something they don’t really need. Extravagance disappears, for if IT is outsourced and a manager wants something produced that has not been contracted for, it has to be paid for separately.

Apart from such obvious things as finances and flexibility, outsourcing has important psychological aspects. It allows management to concentrate on the essential components of their business mission and saves them from wasting energy at the helm of the business contracted out. It shifts people from a subsidiary production of a company to its main business. It is always more interesting to be part of a core business rather than to find oneself in the supporting role, as it were. Below are given the most important aspects of outsourcing, i.e. organizing part of a company to be outside the corporate unit.

Table 1. Aspects of outsourcing

Business	Psychology	Flexibility	Politics
• Market transactions • Efficiency • Scale advantages • Experience curve • Available options • Systematic – autonomous	• Focus • Small-scale advantages • Career opportunities • Freedom to choose what to buy	• Labor laws • Flexible contracts • Technological lock-in	• Ideology

Balancing renewal (innovation) with stability (effective operation)

The dichotomy in the heading has been dealt with in many situations. Charles A. O'Reilly III and Michael M. Tushman have published an interesting article in the *Harvard Business Review* under the title, "The ambidextrous organization" in which they write about the Roman god Janus, who had two pairs of eyes, one looking to the front, the other looking back. This deity of antiquity illustrates the need to create effectiveness and economy in production and at the same time, to pursue innovation, i.e. the creation of new products to ensure future success. It is within the scope of most companies to add something new to their offering of goods and services, but there are few with the ability to achieve anything really radical. Contemporary examples are Boeing being overtaken by Airbus; Kodak only partly successful in digitalizing its technology; the large, traditional airlines unable to do anything about their high cost levels. It is amazing how often innovation and commercial exploitation come from newly created companies, which only goes to show how difficult it is for an organization to organize itself for both operation and innovation. Examples of companies that have failed in this parallel endeavor are unfortunately more numerous than the successes. The structure oriented to operations and stability occupies the high ground of privilege and the culture of innovation has to scramble around like a guerrilla band if it is to make an impact.

Earlier we gave the example of the Ford Motor Co. in the 1920s needing a really life-threatening crisis before it could come up with something new. Sandvik and Haldex provide examples from Swedish industry. Both of these companies are traditionally geared to the manufacture of steel products and heavy vehicle braking equipment. Both companies have been spectacularly successful in making room for efficient operation in the production line, innovation and the development of new, high-risk products.

Haldex – an example of operation and innovation

In the last ten years, Haldex has triumphed in unfurling a new electronic four-wheel drive alongside its more traditional production of levers for drum brakes and more recently, disc brakes for heavy vehicles. We interviewed the Managing Director to understand how his company had managed, structurally and culturally, to continue with the innovative four-wheel drive in a system dominated by rationalized operations and by working traditional customers. The Haldex four-wheel-drive system is now used by world-class car manufacturers like Volkswagen, Volvo and Ford.

In 1995, an inventor with a background in motor rallies approached the Skåne manufacturing unit to discuss a new electronically driven four-wheel clutch that distributed the power between wheel pairs much faster than existing clutches, while reducing tyre wear. The clutch gave much better traction than systems then on the market, which at the time was dominated by viscous couplings. Haldex showed great interest in developing the four-wheel coupling and managed to interest Volkswagen. Obviously, luck played its part in such a big client getting involved just at that particular time. The Haldex clutch is now used in the four-wheel drive models of Golf, Passat, Skoda Octavia and the Audi TT. Volkswagen backed the Halldex solution and contributed enthusiastically to its development. Had it not been for their interest, the Haldex clutch might never have made its breakthrough. Claes Warnander, the Haldex Group Chief Executive, now carried out a painful reorganization. He moved development work from the Skåne factory, which, we should remember, was totally oriented to supplying manufacturers of heavy vehicles, to a unit that was 100% focused on the development and commercialization of the four-wheel clutch. The VW Group made price and volume commitments that made the creation of profitability difficult. Deliveries significantly increased one year only for losses to rise, which showed that the incentive was not there for productivity to be hiked up. At the turn of the century Volvo went over to the Haldex clutch on its four-wheel-driven models of the V70, Cross Country and XC90, and later, SAAB became a customer at the same time as deliveries began to Ford in the USA.

An innovation process relying on commercialization often needs an element of luck as well as sound planning. The Haldex example shows that the management of a manufacturing unit oriented to long runs and low unit costs was in a position financially to be able to show interest in the invention right at the start. Obviously, the leadership had understood the importance of being associated with an enthusiastic customer, in this case, Volkswagen, as well as the necessity of separating the two commercial processes (levers and clutches).

In time the four-wheel drive system was given its own organization, with a focus on development and commercializetion. At the time of writing – 2005 – the business press is talking about companizing the business and selling it off, as there are no synergies with the rest of Haldex. In this case, innovation and the commercialization of the product seem to have happened randomly.

The start-up of Volvo as a spin-off of SKF is another example of the successful commercialization of an innovative product.

The dualism of operation and innovation can be molded by an organization's structure (anatomy), its physiology and its psychology. It is closely related to the two dimensions of effectiveness – customer value and productivity. The dramatic psychological changes to be found in these two areas call to mind Roger Sperry's research into the question of right brain and left brain competence, which was rewarded with the 1982 Nobel Prize in medicine. Briefly, Perry says that creativity and original thought are found in the right side of the brain, while structure, order and rationality are chiefly located in the left side. This is to greatly simplify very complicated research, but we mention it in passing since it is relevant to organization in operations and in renewal.

The productivity dimension attracts highly structured people with a leaning towards mathematical logic. By 'productivity', we mean here the cost of a unit of anything that is manufactured and delivered, whether it is a service or a piece of goods. People with this kind of structured aptitude are indispensable for any kind of business. The rational presentation and delivery of a product is essential, whether we are talking about aircraft for passenger traffic or consultant services. Where man-hours are involved in a calculation of costs, rationality corresponds to finished concepts, solutions to problems, etc., meaning that the time required completing new services or solutions will be considerably shorter than would otherwise be the case.

Persons oriented to productivity are invaluable whatever the product. However, there is a significant risk if such persons are given such a powerful position in an organization that innovation is stifled. It was an affection for the enduring uniformity of that paean to the rationality of productivity, the model T Ford motor car, which had its founder Henry Ford supposedly saying, "You can buy it in any color, as long as it's black."

The value dimension is in this context the relation between utility (quality) and price, i.e. the trade-off we all make when we consider whether to buy a piece of goods or a service. Understanding what is useful to the customer must count as one of the most valuable talents in business and organizational psychology. A genuine understanding of customer utility leads to innovation, i.e. technical and commercial creativity. There is a danger in questioning customers about their value judgments, in that one can become a feedback fanatic, a prisoner to questionnaires and market research. Well-known products such as New Coke and the McLean burger were marketed on the back of extensive customer surveys but both campaigns led to losses and then closure. Other products such as the microwave oven and the Chrysler Voyager got the thumbs down in questionnaires that preceded the launches but turned out to be thundering successes. In fact, the Chrysler Voyager saved the Chrysler Group from going under in the 1980s.

Market research has two polarities. In the first, we listen carefully to what customers want then we give them what they want. In the second, we are creative and totally disregard what customers say. One of organizational psychology's most important truths lies behind this apparent paradox. On the one hand we should listen to what customers say they want but on the other hand, we have to look for the values that lie beneath this. Then we find new ways to satisfy customer needs.

As in the question of stability and productivity, working according to the customer value axis carries huge risks. The biggest risk lies in investing huge sums based on a correctly diagnosed needs structure but developing the product so quickly that it is out of date even before it is introduced to the market. An example is the investment in satellite mobile systems under the trademark "Iridium" in which Motorola was involved. At that time, ground contact with mobile phones in many parts of the world was impossible and the quality of the telephony was poor. To that extent, the diagnosis of the Motorola-led project was correct. This picture rapidly changed during the investment period. The mobile system expanded all over the world and the quality of the telephony was improved through the development of base stations, repeaters, mast top boosters, etc. After some 60 satellites had been shot into space and a market offering of ungainly, expensive handsets, the project had to be scrapped and the consortium was strapped with enormous costs. Although the initial analysis was correct, the project was not properly scrutinized or reviewed. Meanwhile, conditions had changed.

The Concorde project is an example of an erroneous analysis of customer needs. Time in the air represented such a small part of the total traveling time that there was an unwillingness to pay the very high ticket prices. The project seems to have been started and continued purely for national prestige. Even when flights began, it received a severe blow when the New York Port Authority, refusing to allow supersonic aircraft to start and land, said that noise levels were unacceptable.

Productivity and stability are important but can lead to catastrophe if creativity is suppressed. Innovation based on a deep understanding of customer needs, can be instrumental in future success but can lead to bankruptcy on an incorrect analysis or if conditions unexpectedly change.

Business Week, the highly regarded business magazine, devoted an entire edition to innovation. Under the heading "Building an idea factory", the magazine volunteered the view that innovation was a mixture of the creative process, plus management and organization. If we asked the man in the street who invented the light bulb, ten to one we would get the wrong answer, "Thomas Alva Edison". In fact, Edison was decades behind others when he first presented his 'discovery' in 1879. Why then did Edison get all the glory? Andrew Hargadon, the author of *How breakthroughs happen: the surprising truth about how companies innovate*, has provided some information on this. To bring his creation to the purchasing public, Edison and his team of engineers spent years building entire electric systems, from light sockets to generating facilities and wiring networks. Only then was it possible for the electric light bulb to light up the world. Edison had the better of his predecessors in one crucial aspect: management of the whole innovation process. This task has not got any easier during the 125 intervening years. One can always get lucky, but the trick is to be innovative time and time again, cultivating a culture where lightening can strike twice in the same place.

A number of forces stop innovative products from reaching the market. Small companies are often the most innovative but have a hard time gaining the confidence of potential buyers without a tried and tested track record. According to the Harvard professor Clayton Christensen, large companies can be afflicted by what he has called the "innovator's dilemma". By catering to their best clients with sophisticated needs, large companies devote much energy to producing increasingly more expensive and complicated products, which might seem like a good idea. Many companies ignore the less glamorous, less profitable products that often attract start-ups and thus the burgeoning competition that will later eat into the market share of the big volume producers. Examples of this can be found in Internet telephony, discount airlines and open-source software. The innovator's dilemma is now affecting traditional telecoms operators and giants like Microsoft. The problem for the big guys is to organize for the next step in their development.

Summary and study points

In this chapter our aim was to highlight some important aspects we should consider before developing or restructuring an organization. By looking at these issues, you can develop your own organization theory for specific situations. It might be a good idea to do this together with an expert in the field, perhaps someone who has dealt with similar situations in the past, or a consultant with the appropriate experience.

CHAPTER 6

Tools and conceptual models

In this chapter we'll be discussing a number of tools and conceptual models, both traditional and relatively recent ones. By tools and models we mean methods, processes, approaches and exercises, used individually or in groups, which aim to structure and develop knowledge. The tools and models presented here should be seen as a *smorgasbord* for inspiration in dealing with organizational factors. They are, in alphabetical order:

- Elements of the business mission
- Benchlearning®
- Decision-making
- Elimination of a level
- The one-man band
- Customer analysis
- The "megaprocess"
- Modelling/process mapping
- Zero-base start
- External environment analysis
- Organigraph
- Performance criteria
- Problem analysis (PDS)

- Fair process
- What can *not* be outsourced?
- Values and behavior

Elements of the business mission

The business mission of a business describes its fundamental aim. Outside the commercial sphere, the business mission is often called the *operating concept* and is simply what the organization has to accomplish. Business mission, or *business concept*, is often used by both commercial and non-commercial businesses.

A business mission should always start with the needs of customers or purchasers of a product. It is important to distinguish between needs and demand. A need to satisfy one's hunger, for example, can result in a demand for porridge, a fillet steak, or fish, etc. A need for cold can result in a demand for ice, a fridge, or for a trip to more northerly latitudes (more southerly ones for those in the Southern Hemisphere). The last point was vividly exemplified by the two companies, which at the beginning of the 1900s were engaged in the business of sawing and delivering ice. The business mission of one of them was to sell ice while that of the other was to sell cold. After the introduction of the refrigerator, one of the companies was left. You don't need to be a genius to guess which one.

This example also says something about defining core competence. Delivering ice was a project that embraced what for the time was advanced logistics. Perhaps this competence could have been used in some other connection after the advent of the fridge? We have begun to look at important aspects underlying the business mission of a business. These can be summarized in the following five points.

1. Needs/demand
2. Customers/distributors
3. Offering of goods and services

4. Core competence
5. Competitive edge

An exercise we have found useful is to discuss all the parts of an organization with the above factors in mind, when both dependence relationships and structural shortcomings in the organization may be revealed. A number of questions may arise concerning the elements of the business mission:

- What needs are satisfied by the unit/department/division and what products/services are called for internally or externally?
- What internal/external customers (receivers of goods or services) does the unit/department/division have?
- What products or services are provided by the unit/department/division?
- What competence should be found in the department (ignore obvious hygiene factors in this discussion)?
- What should the unit/department/division be best at? What competitive edge does the unit/department/division have if it operates in the external market?

By systematically going through all the parts of an organization along these lines, we might start an interesting discussion which, in our experience, could lead to many an insight into organizational design. It might then turn out that we should concentrate a particular kind of competence in a particular section, or a make a certain unit a candidate for outsourcing.

Benchlearning®

It should be obvious to all of us that we should learn from the experiences of others without ourselves having to re-live those experiences. Humans have developed faster than the animals because of this axiom. We have been able to store and impart knowledge and have thus created a chain of learning between different cultures and geographical areas over time.

Benchlearning was developed in 1994 within Karlöf Consulting as a natural consequence of a long experience of benchmarking. Benchmarking largely focuses on key ratios and processes. Benchlearning goes a couple of steps further; first, to causality, i.e. causal relationships, and then to organizational learning, that is, the insight of what is important for success in an organization.

When thoughts of reorganization first arise, perhaps we should first ask ourselves what the problem is, i.e. what was the symptom that called forth which diagnosis, which in turn made us wonder whether changes to the organizational structure might be the answer? Other businesses that experienced similar problems and solved them can then be identified. Valuable input can be provided by role models, as well as by examples to be avoided. Perhaps some other business saw reorganization as the answer only to discover later that a want of competence in the sales force and a negative organizational culture might have been the correct diagnosis. Perhaps reorganization was the easiest option for the managing director. In any case, the business ended up spending even more time on internal matters, which from the beginning had amounted to a negative cultural pattern in the organization. On the other hand, a role model might have carried out a successful reorganization in a similar situation and got rid of the evil symptoms. Then it would be interesting to know how it went about things and why it was successful.

We would like to point out that benchlearning is never about imitation, as every business and situation is unique. Attempts to transfer an organizational structure that worked for one business, to another one, have often had catastrophic results. Benchlearning is more about inspiration, about taking good ideas and interpreting them in the context of one's own business.

Perhaps a business has decided to re-organize to achieve a set of results. This business might gain from contacting one that is known to have achieved the desired results. If new ideas are not forthcoming and you think organizational change might improve the situation but want to retain your operative effectiveness, you might contact Haldex, a company that from start-up in 1985 has successfully managed to contain these opposing forces. How did they do it, and what could be learnt from them?

Again, we might contact a business that has successfully reorganized in order to get inspiration from the preparation and communication that characterized their process. How were they able to get unions, employees and managers to back the new organization? A role model might serve its purpose simply in being a force for the good. It has been said with good reason, "If it ain't broke, don't fix it", but with the example of a role model, the burden of proof passes to the guardians of the status quo. It is then up to them to show why something shouldn't be changed.

We could list any number of ways in which benchlearning can be applied to organizational change, but we will end this section simply by encouraging our readers to freely seek out information that can be put to good use. For those who would like to learn more about benchlearning, we can recommend the book, *Benchlearning 2: erfarenheter från sju praktikfall* (red. Christian Pleijel. Stockholm: Ekerlids 2004), where examples from different areas are described and discussed.

Decision methodology

Decision-making is often marked by great uncertainty, much deliberation, high investment, and serious consequences. This is especially true of decisions taken in business, in political situations, in war and peace, or in important human relationships. By familiarizing ourselves with decision theory, we can learn to make decisions more effectively while dealing with the consequences of those decisions.

In their book *Smart Choices* (Boston: Harvard Business School 1998), John S Hammond, Ralph L Keeney and Howard Raiffa describe a methodology given the name of PrOACT, an acronym that derives from the first five elements in the decision-making process.

These elements are given in the table below.

1. Problem
2. Objectives
3. Alternative
4. Consequences

5. Trade offs — Trade-offs
6. Uncertainty
7. Risk tolerance
8. Linked decisions

We have used PrOACT as our working method because we have found it to be more comprehensively useful than other methods in decision theory. PrOACT seeks to analyze and clarify the situations in which we make complex decisions. For very complex decisions, it may be necessary to carefully go through all eight steps in the process. It might suffice to select a number of elements that are especially interesting for the situation in question and go on working with them.

Has the problem been correctly formulated? The problem has to be correctly formulated for the best result, and complex problems must be formulated clearly and concisely. As they say, "The answer depends on the question."

Are the goals we want to reach clear? To make good decisions, it is important to have a clear picture of what we want to achieve.

Have different alternatives been identified? It is important to clarify the alternatives.

Have the consequences of applying alternatives been thought out? Assessing the consequences of decisions is difficult but important.

What trade-offs need to be made? We sometimes find that our goals and the decisions we have to make in connection with them conflict, so we might have to accept a certain amount of conflict and work to establish a good balance.

At other times we might have to relinquish one goal in favor of another one.

Are there any doubts? It is important to try to identify and clear up any existing doubts before making a decision. Are we sufficiently confident that the external business environment is developing as we thought?

What risk tolerance is there? Decision-makers should carefully look at the risks involved. If a decision carries an unacceptable level of risk, it can be eliminated.

How are decisions linked together? A decision made today affects future decisions, just as our goals for tomorrow affect our decisions today.

In this section we would like to underline the importance of thinking very carefully before going through with a reorganization. Apart from the obvious good sense in analyzing decisions of this importance, a carefully defined goal will guarantee effectiveness of the process and the communication involved in it.

Elimination of a level

In his book *Cutting Costs* (Shanghai People Publishing, 1995), Harry Figgie describes how to remove a management level and thus make an organization more effective. He begins with three rules necessary for building up an organization:

1. A manager's span of control should not be more than 10 people, but neither should it be less than six or seven.
2. Managers with the greatest responsibility for company results should be part of the executive committee and report to the managing director or equivalent.
3. The number of levels between the managing director and the lowest foreman should be kept to a minimum.

Harry Figgie's advice shouldn't be taken too literally, but there are many cases of only two or three individuals reporting to the managing director of their company, which often entails a waste of resources. On the other hand, if managers have too many people reporting directly to them, this usually means one of two things. Either the management function has been so weakened that the quality of reporting has suffered, or subordinates have become so independent that there is little effective leadership.

Figure 11 illustrates a production setup where the production manager only has three department managers reporting directly.

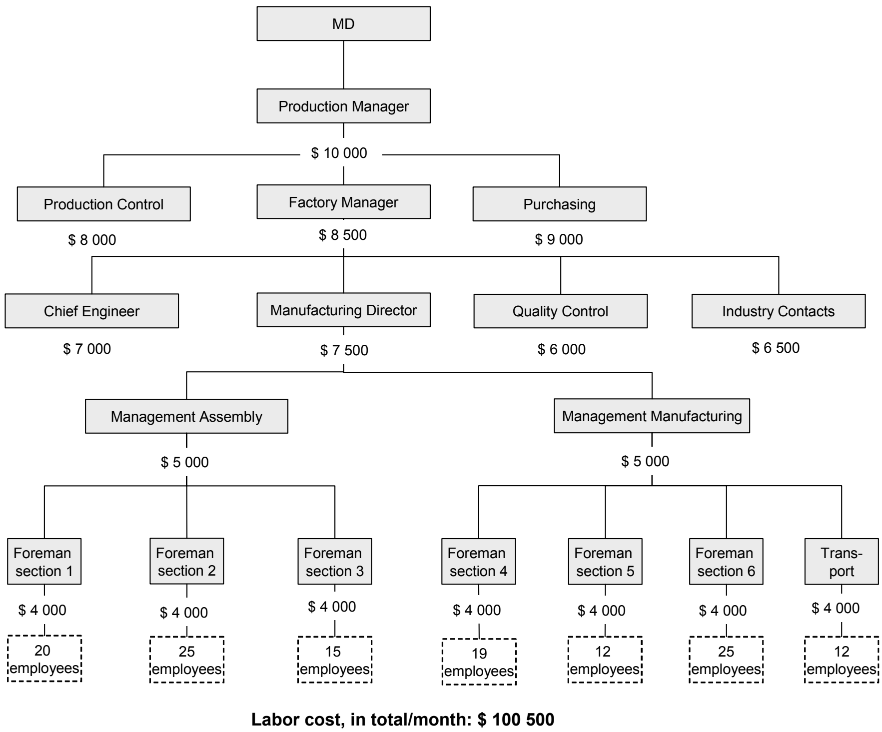


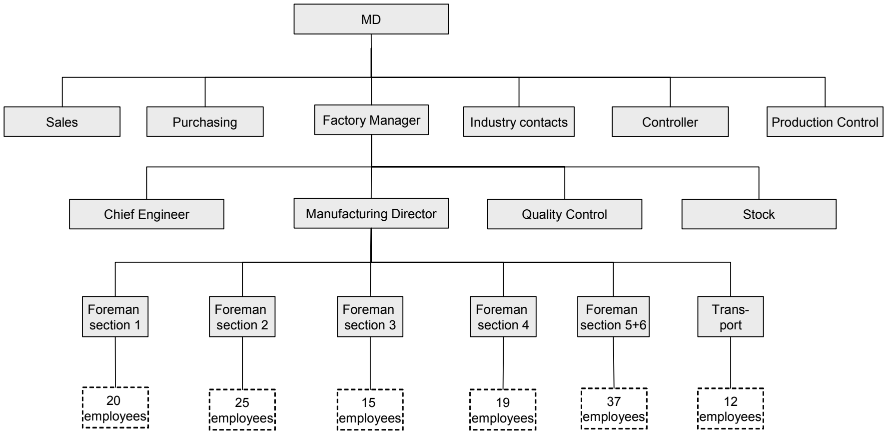
Figure 11. In his book, Cutting Costs, the author gives the above example of an organization overburdened with middle managers. Total labor costs come to $ 100 500. A change in the organization could radically lower labor costs.

Monthly salary is given for each position, with the total salary per month of SEK 424,000 for all the managers down to the foremen. This organization could be designed differently, with considerable savings in monthly salaries. At the same time, not only would effectiveness be maintained, it would actually increase.

The organization's effectiveness has increased while costs have been reduced.

The one-man band

A useful exercise is to start with the "one-man band" then add the processes and functions that are essential to the organization's success. This is very much like the 'zero base' approach, where the



Savings/month:

3 Foremen	**$ 14 000**
1 Production Manager	**$ 10 000**
Total:	**$ 24 000**

Figure 12. By flattening the organization and removing a number of middle managers (three foreman functions and a production post), the company saves $ 24 000. Labor costs are therefore cut by a quarter. Source: Cutting Costs.

organizational slate including people, capital structures and so on, is wiped clean, and substituted by the existing customer base. The one-man band and zero base provide a kind of release from situations that have become unnecessarily complicated by irrelevant organizational relationships.

In the one-man band, hierarchy and work specialization can be said to be united in one person. The advantages of skull and scale in the base functions, generally comprised of development, production, marketing and administration, are concentrated in the same individual. Obviously, it's practically impossible for one person to be the perfect candidate for any and all the posts comprised in business management. But the one-man band contains the entire company hierarchy in his person. As the chief executive he encourages the creativity in his development self to seek innovation which, by being market-oriented, gives a competitive edge. The same thing is true of the other functions. We give an example from business, but a bright spark developing a section within a public authority could serve just as easily.

In "Management", by Robert Kreitner (Boston: Houghton Mifflin 9th edition, 2003) we find a good example of a one-man band developing into something more complex.

Case study – an organization's growth

George Nordemo had always been a keen fisherman. When George loaded up his caravan with expensive fly-fishing gear and headed off to the nearest salmon trout stream, his neighbors knew there was going to be fish on the table.

About six years ago, George began to try his hand at the difficult business of tying his own flies. He was a creative sort of guy and good with his hands, and soon had managed to construct a fly that had the salmon trout biting. Word got around quickly among the fishing fraternity and George was completely swamped in orders for his newly patented Fantastic Fly at $ 5 each. What began as a pastime had developed into a very profitable business bringing in something like $ 2 000 a month. George began to have less time for his fishing as sales of the Fantastic Fly took off and he spent most of his time tying flies. An organization chart at this time would have looked like a box containing all the functions of the business. George took care of operations, technical development, production and sales – in an organization that didn't yet exist. At this early stage, there was no vertical hierarchy or horizontal work specialization.

Soon George found that it was impossible to tie more than a few hundred flies a week and have time left over to visit distributors who wanted to stock and sell the Fantastic Fly, so he hired and trained a family friend called Mary-Lou to help him in the small premises he had hired for the business.

We could already have drawn an organization chart as soon as Mary-Lou was hired, for at least two people are needed to create an organization. It would comprise a simple division of labor between George and Mary-Lou, with a vertical step from George to

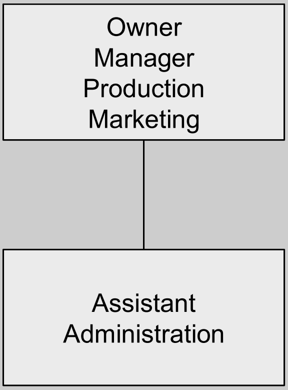


Figure 13. Simple division of labor

Mary-Lou. Mary-Lou took over the administration, consisting of a sales department, invoicing and book-keeping.

As the business grew, George was able to take on and train four full-time staff, who tied flies under the eye of himself and Mary-Lou. He also hired Fred, an old fishing mate and a shrewd salesman. Fred was responsible for marketing and the supervision of two recently recruited sales reps. A financial director was needed soon after this to manage the growing administration.

Fantastic Fly Ltd. is today a well-established company with sales of over $ 3 million per year. Having seen the business grow step by step over the years, George has finally ended up with a formal organization. This can be seen in the chart below.

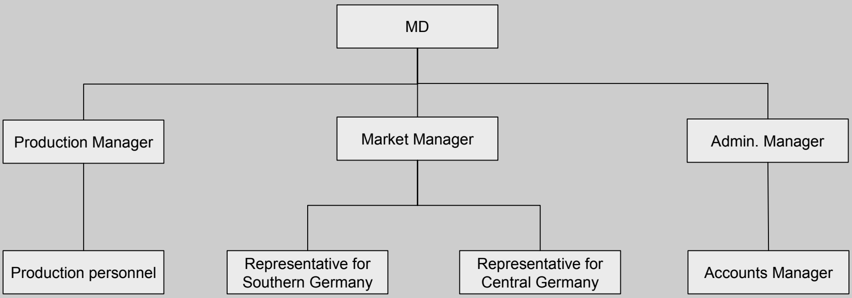


Figure 14. A mature organization with both vertical hierarchy and horizontal work specialization

Note that Fantastic Fly now has a vertical hierarchy of three levels and three forms of horizontal specialization. Three managers now do the work that George used to do himself. George's work as Managing Director will be increasingly complicated as vertical levels and horizontal specializations are added. Increasing importance will be given to coordination as the right hand has to work harmoniously with the left. Work specialization makes coordination more difficult as organizations are built, but a workable balance between specialization and coordination can be reached in various ways. This is discussed elsewhere in the book.

A great many organizations develop in the same way as Fantastic Fly. Someone with drive begins to deliver goods or services on their own, then gradually expands the business into a full-blown company. Things get still more complicated for Fantastic Fly and George Nordemo when he begins to import fishing rods from Thailand and becomes the agent for several European countries.

He then has to start sales companies in Spain, Italy and France and make sure that they are specialists in fishing-rods. Some clever chap might then discover a new way of making lures and spinners to complement the range of flies. Fantastic Fly thus grows organically and gradually becomes a fixture in the hobby product range.

Fantastic Fly is a good example of the kind of model that can prove useful when looking at complex organizations, especially if we can go back to the beginnings, as we have done here.

Customer analysis

All organized activity is based on creating a value that is higher than the cost of producing this value. This fundamental principle can be applied to complex groups, as well as business units or departments such as IT, Human Resources, etc. By *value* we mean the relation between utility (quality) and price. A basic understanding of customer value not only provides for long-term success, it is also the best possible foundation for an organization.

Customer value is a complicated business. The world became oriented to productivity even before the days of the organization theorist Frederick Taylor. When people were poor and goods were hard to come by, a pair of shoes – any pair – was welcome. As a result, companies focused on productivity. But the situation has been different for decades. Nowadays we have plenty of choice and individual customers can indulge almost any taste as to quality or price.

Management and organized business in general is now highly skilled in segmenting customers on a value basis. The Scandinavian Airlines management at one time cleverly identified the willingness of business travelers to pay for extra comfort. This was in the middle of the 1980s, when SAS launched Euroclass. This segment was relatively unmoved by price, payment usually being made with untaxed company funds – money that could be deducted as costs against income. During the last decade, Ryanair has identified a large and growing segment that primarily chooses its supplier on the basis of price but here, tourist class passengers pay for their tickets with hard-earned money already taxed.

Touching on the discussion of stability and renewal is the question of customer needs and demand. A perception of customer needs and the attempt to satisfy them can lead to a widely diverging range of goods and services. The need to communicate between London and Paris can lead to the demand for phone calls, a train ticket, a flight or a video-conference. But only when customers are aware of new and more efficient ways of satisfying their needs does demand bring forth this offering of goods or services.

Value is defined as a function of utility and price, which means that the customer's readiness to pay is affected both by utility (quality) and price. In connection with organization, we have seen cases where customer utility and price were kept as separate issues, with extremely negative consequences. The difficult thing is to find the right balance between customer needs and price.

As all organized activity is based on creating value for the customer, any organization has to prioritize customer needs and values. This is also true of the most complex, specialized production apparatus, when we may be sure that production will have been specially set up to satisfy customer needs. It is therefore wise to know what your customer needs and values are if your organization is to have the best possible foundation.

The "megaprocess"

Below we illustrate the *megaprocess*, i.e. the long road from an understanding of customer needs to the production apparatus necessary for delivering the goods and services that will satisfy those needs. In a few words, the organization problem is to create groupings that can keep making this journey most easily and economically.

Figure 15. The "megaprocess"

This perspective clearly shows the organizational challenge: to implement a rational production apparatus while satisfying the demands of customer needs that are rarely constant and uniform in nature.

The car manufacturer Toyota was quick off the mark to show the world how economies made from large-scale, rational production could be combined with an adaptation to customer needs. "The machine that changed the world", by James P. Womaek et al., (New York, HarperPerennial 1991) was based on research at the Massachusetts Institute of Technology. Production at Toyota is able to create long runs at low unit costs but at the same time manipulate a great many variables depending on the individual preferences of customers. This stands in clear contrast to Henry Ford's maxim about black Model T Fords back in the 1920s. Toyota has again astonished the world and created headaches for its competitors by launching and being able to mass-produce the well known Prius, an electricity and petrol hybrid that halves normal fuel consumption. A license has been sold to Ford, and General Motors has joined Daimler Chrysler in a nervous alliance to produce a hybrid of their own.

The Toyota example shows how risky it can be to ask customers about their preferences. When Toyota began development of the Prius in the middle of the 1990s, it did not make sense to consult its customers, as nothing could have been further from their thoughts than an electric hybrid. By being innovative and tuning into the environmental concern of reducing petrol consumption while taking a well-calculated risk, Toyota has surpassed expectations.

So when we put customer needs at one end of the spectrum, we don't mean 'demand', we mean 'needs'. We must be able to look at what is behind what customers say to understand the underlying needs structure if a commercial risk is to be acceptable. Then we can offer a genuine solution and not just a stop-gap.

The most important business process is the one outlined above. This kind of well-based simplification can sometimes help to give a clearer picture of the organization process.

Modelling/process mapping

Where important workflows are concerned, thinking in terms of processes is essential if an organization is being overhauled or reshaped. Modelling can be used to understand how goals, concepts and activities hang together. Modelling serves three principal purposes where organization is concerned.

1. To understand an organization's main processes in order to find the structure that best supports them
2. To understand the connections and interfaces in an organization that can't be grasped through diagrams or job descriptions
3. To understand how goals and performance requirements for different parts of the business contribute to the whole

To understand the principal workflows in a business, we have to ask ourselves the fundamental question, What should the business carry out and how (in what steps) is this to come about? The processes identified can then be placed against the competence that already exists or is needed to do this (see Figure 16).

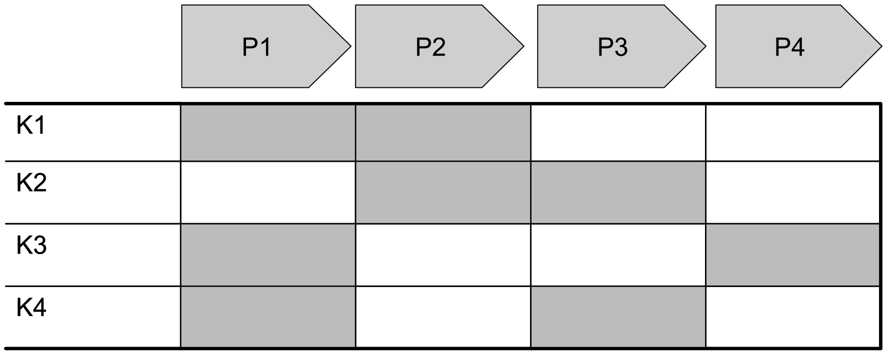


Figure 16. Competence mapped to processes

The matrices show which competencies (K1-4) are required in each process (P1-4). The following questions can for instance be discussed using the diagram.

1. Should we be organized on the basis of competence (functions) or processes? The diagram makes clear that there is no competence area that only works with a particular process, say, product development or sales.

2. How should we deal with the dimension (process or competence) that we don’t use as a basis for our structure?

3. Is there a process in which we utilize our core competence to a lesser degree (for example, P4)? Is this process step a candidate for outsourcing (see this section on p. 92)? Is there a good reason to have a matrix organization where the employees have their organizational abode in the competence areas as well as the processes?

We might mention in passing the salutary experience of a large Japanese technology company that required all its employees to possess competence in all the process steps involved in a product. All those working in product development had to follow the product through the different stages of packaging, marketing, sales, delivery, service, etc. The result was that these employees, through their understanding of their customers’ needs and the challenges the organization faced, attained superior commercial ability.

Modeling is an effective method of clarifying and dealing with organizational questions. At Karlöf Consulting we often work on large pieces of paper to define and group the roles found within a business. The connections between the various roles can be opened to group discussion. The roles are then linked together with the work assignments of the business and/or the existing organizational structure. This methodology can be usefully applied in other areas, as when discussing an organization's goals – what goals do different parts of an organization have, and how are these goals related? – or when discussing stakeholder relations.

We have found that, when used within a group, modeling can be a very effective way of preparing for an in-depth discussion of an organization's anatomy or physiology. However, if the exercise is to be successful, a consultant with experience of modelling should be used, otherwise there is a risk of the methodology getting more attention than the matter in hand.

Zero-base start

It can be beneficial sometimes to "wipe the slate clean" before beginning an organization process. Organizations may suffer from any number of more or less irrelevant issues that obscure the really important ones like business processes or customer needs. Negative things, like the unnecessary exercise of power, personal intrigues, or a complicated company history, can be distracting. A useful approach can be to implement organizational processes based on actual and probable requirements. All unnecessary and nugatory aspects of the organization are then swept away to allow it to re-invent itself.

Zero-base started to be used with budgeting in the 1970s. An annual business budget is generally drawn up on the basis of actual performance and the previous year's budget. This process normally includes the arbitrary addition of a certain percentage to every item in the budget. This method of planning, based on trend projections, dominated from the Second World War right up to the end of the 1970s, in a reasonably stable world where inflation, unemployment, economic growth etc, developed at a predictable rate. The trouble with trend projecting was that managers concentrated on cost increases from year to year rather than on the different benefits such costs should have been delivering. Besides, this method did not work at all in a world subject to such unpleasant surprises as the oil crises of the 1970s.

Zero-based budgeting was developed by Peter Pyhrr, a manager at Texas Instruments in Dallas. Pyhrr established the budget figures every year as if the figures for the previous year had not existed. Every condition and assumption had to be reviewed on the basis of the situation as it stood. The previous year was by no means accepted as the benchmark for the current one. It was as though a completely new project was just beginning.

The zero-base approach (also called 'clean slate') is an intellectual exercise that frees the mind from minor company concerns. Although not really a full-blown methodology, it has its uses and there are a number of ways it can be applied. Below we give a step-by-step approach, best done with the help of a facilitator.

1. Who are the intermediaries and end-users we serve, and how can these customers be divided into large categories according to needs?
2. What groupings, when making new sales or providing after-sales service, are most suitable for serving these customer segments?
3. What competencies and resources do these groupings need if they are to serve their purpose?
4. Which supporting functions and processes (manufacturing, Human Resources, IT, etc) call for specialization and therefore separate groupings?
5. What advantages of skull and scale can be found in the production of the goods and services delivered?
6. How can the individual needs of customers be optimally weighed against these skull and scale advantages?
7. Do complex system deliveries need to take other units into account in order to maximize customer value?

8. What working methods can be used to take customized production into consideration?
9. Specify and assess where competence areas depend on each other.
10. Given the above, how should we build a new organizational structure?

External environment analysis

We have emphasized that the demands made on an organization by the external environment should determine its structure. The external environment of a business comprises the market and industry with its competitors, together with all the external stakeholders, including politicians, customers, investors, lenders, media, etc. Getting information can be done in different ways, depending on one's aims and ambition level. External analysis means, as do many terms in management, different things to different people. The term 'business intelligence' has been used in this connection: keeping oneself informed about what goes on outside a business.

The term *external environment analysis* is usually qualified as strategic or operative. The former seeks to identify long-term developments in the external environment that will affect the business, while the latter attempts to find factors that will have a direct effect on the business and therefore must be dealt with immediately. From an organizational point of view, both strategic and operative external analysis are important. Perhaps the first has the edge in reorganization, when there's a focus on future success. The identification of trends and developments affecting a business will be important in any case. PEST is a model used to scan trends and developments in four areas.

- **P**olitical/legal trends, such as those found in legislation, treaties, ordinances and political stability
- **E**conomic trends, such as those found in economic development, interest levels, access to venture capital and the labor market situation.

- **S**ocio-cultural trends, such as those found in demography, differences in income, ethnical groups, changes in life-style, levels of training, and attitudes to work and leisure time.
- **T**echnological trends. National and supranational investment, technological change, technological maturity and new discoveries.

There are different models that can be used to act on trends once they have been identified. Trends are usually identified by means of a *risk map*, where one axis represents potential effect and the other, probability. Extra attention should naturally be given to probable trends with great potential effect.

A useful exercise can be to discuss the likely effect on your organization of various significant trends, both threats and opportunities. The following questions may be used for this purpose.

1. What can the trend lead to? Give a description of the trend. How has it been identified and what qualifies it to be a trend?
2. What kind of effect can the trend have on the business? (An assessment is made of the threats or opportunities the trend might involve.)
3. How do we react to the trend? What level of preparedness is there for the trend? Can we deal with a development in our existing organization, or do we have to make changes?
4. How will the development of the trend be monitored? What indications can we follow up to do this?

The above description is a relatively simple trend analysis that can be done quickly. Many experts in the field work full-time identifying and describing business trends, and this is just at the macro-level.

A useful exercise can be to match various developments in the external environment against the strategies that the business has identified. Does the orientation of the business tally with developments in the external environment?

Extreme results for different trends can be combined in different ways to visualize possible scenarios. What for example would be the outcome if the trademark were to become much more important at the same time as a dramatic increase in consumer power? How could we best organize ourselves to prosper in this kind of environment? In other words, an external analysis can be carried out more or less according to current trends. But it can be a big mistake to apply the 80-20 rule (briefly, 80% of the results in any situation are determined by 20% of the causes). Many businesses doing this have found that it was just in that 20 per cent that the future lay. The following issues are particularly interesting from an organizational perspective.

- Uncertainty and development of the market
- Development of competitors and the industry
- Changes in customer behavior and needs structures
- Product and technology development
- Political development – especially with regard to deregulation
- Structural trends in organization. An example is outsourcing.
- Access to competent managers and co-workers
- New businesses in the industry

The researcher Joseph D. Thompson categorizes the external environment as two opposite pairs:

1. Homogeneous vs. heterogeneous
   In a homogeneous external environment, an organization need only consider a few players who are all fairly similar. A heterogeneous external environment comprises many different players.
2. Stable vs. turbulent
   A stable external environment is relatively predictable and doesn't change very much over time while a turbulent external environment is just the opposite.

By combining these dimensions we obtain, as in Figure 17, a 2 × 2 matrix that can be used to discuss suitable organizational forms from the perspective of the external environment.

	Stable	Turbulent
Homogeneous	1	3
Heterogeneous	2	4

Figure 17. Thompson's external environment matrix

Here we summarize Thompson's view on the organizational forms suitable for the different fields of the matrix.

1. Specialized, highly regularized organizations divided into functions, with management by rules. Can be compared to Mintzberg's "Machine bureaucracy" (see page 28).
2. Independent divisions focusing on different market segments. Can be compared to Mintzberg's "Divisionalized form" (see page 29).
3. Small-scale advantages are very evident in this field. The organizations are either small or heavily decentralized, in that speed and closeness to the market are important. Mintzberg's "Professional bureaucracy" can be found here (see page 29).
4. Recommended here is an organic structure with great flexibility and little standardization, perhaps something in the order of a decentralized matrix organization or a network structure. Mintzberg's "Adhocracy" can be found here.

We should point out that these recommendations are not blueprints for success. They simply represent a model that can be used to discuss and analyze organizational structure.

Organigraph

Henry Mintzberg and Ludo van der Heyden describe in the Harvard Business Review a fresh way of looking at organizations called an 'organigraph'. The authors maintain that traditional organization charts are like photo albums, with pictures of "our company". They believe that there is too much emphasis on formal management culture with its hierarchies and that this is largely irrelevant in today's world. As traditional hierarchies disappear and new, complex organizations take their place, people will find it increasingly more difficult to understand how their organizations work. An organigraph is a new way to approach an organization's architecture and such questions as

1. What parts of the organization are inter-connected?
2. How should processes and people be coordinated?
3. Which ideas operate where?

The organigraph does not eliminate the traditional squares of an organization chart but it introduces new components called 'hub' and 'web' which, the authors believe, are forms of organization that better reflect the way in which people organize themselves at work today. The bewildering number of dependent relationships in companies nowadays calls for a different response from management, one that acknowledges the relevance of departmental interfaces.

An organigraph is generally understood to contain two components, the first of which is called a *set*, by which is meant a set of something, like machines or people, the divisions in a group, or professors at a university. Sets commonly share resources in the form of capital, management, or other resources. The authors further explain that companies do not simply exist to have sets. They exist to create connections between different sets, which is explained by the other component of the organigraph, *chains*. A factory receives material and converts it into components of an assembly that is delivered to the customer.

An organigraph is not so much a tool for establishing an organization's structure as a device for constructive discussion on how the organization functions. In this it is very much like a business model, by which a business seeks to generate revenue and profits. An organigraph does not account for such things as report flows or the relation between a manager and his employees, but it does expand our thinking on important resources and flows in an organization. In this respect it can be valuable in shaping a new organization or making an existing one more effective.

Performance criteria

On page 77 we discuss the concept of effectiveness in greater detail. Effectiveness is based on the perhaps strange sounding proposition that, "all organized activity is for the purpose of creating a value that is higher than the cost of producing this value". One of our conclusions is that the greater part of organized activity takes place under the conditions of a planned economy, as an organization's internal units deliver to the receivers of goods and services who don't have a free choice between suppliers and are financed "from above", i.e. by management. The suppliers here have a monopoly, as no other unit within the organization can supply the desired product.

One thing we could do before beginning to organize, is to look at each unit in an examination of how performance is measured in different parts of the organization. Many things cannot be measured in terms of money, so we have to look for other criteria for productivity and value creation if we are to find relevant indicators that can be measured. Productivity is related to costs and therefore easier to measure, but quality or value is to be found in the eye of the beholder and therefore harder to quantify. We would therefore do well to consider going through the organization section by section and looking for performance criteria for each one. We should be primarily looking along the axes for value (or quality) and productivity, i.e. the cost of producing and delivering a thing. This approach is often called *value analysis* or *utility analysis*. If all organizations were to periodically review the effectiveness of their units and establish performance criteria, we would be in a position to have a performance culture as an alternative to a bureaucratic culture.

Problem analysis (PDS)

Problem Detection Study (PDS) was introduced as a value analytical methodology in the consumer goods industry at the beginning of the 1980s. It originated in the observation that people generally find it more difficult to talk about how to improve something than to describe the problems experienced when using it. A sun cream was wanted that didn't stick to the body and the result was the emergence of HTH, an innovative dry-skin lotion. A demand arose for a dog food in portions of different sizes so that it wouldn't have to be kept in the fridge and impart an unpleasant smell.

The same approach has been used successfully for producer goods and consumer durables. By ranking, but also by weighting the various problem areas, we can get a list of the most important ones. Then we can approach them one by one. In Figure 18 is a diagrammatic presentation of PDS directed at the customer:

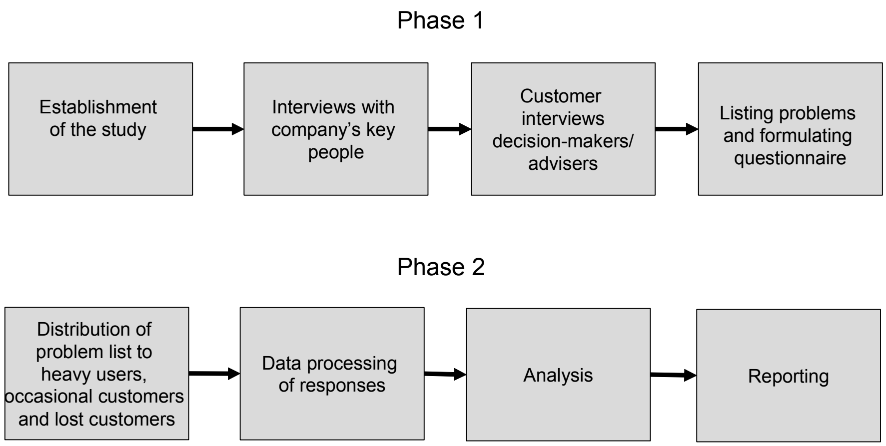


Figure 18. PDS work methodology

By using a PDS in his or her organization work, a manager can identify the importance of different problems and be sure that problem areas are dealt with in the correct order. Relatively trivial problems too often claim center stage because a particular perspective is allowed to dominate. It goes without saying that as far as customers are concerned, we can't do better than carry out a PDS, but here we are primarily interested in its internal use in dealing with organizational problems.

Fair process

Karlöf Consulting has developed the theory of a *fair process* to comprise seven elements, which together result in the acceptance, loyalty, learning and responsibility necessary if a process of change is to be completely successful. Reorganization is as good a time as any to strive for integrity in our dealings with one another, especially as the whole process of change becomes easier and more effective.

Many people talk about the importance of 'process' in such woolly terms that it's difficult to understand exactly which elements are supposed to bring greater organizational effectiveness. The concept of process in this respect often seems to be some group-dynamic affair stage-managed by the HR department. In any case, there is no scientific proof to show that a degree of employee participation will create greater effectiveness in terms of better company results. This is why we say that the importance of fair process can only be properly understood through logical argument. The seven fundamental points in a fair process are as follows:

1. *Motivational forces* are created that lead people to lend their creative juices to the process, so that the mental activity is of a higher quality.

2. *An explanation* for why certain options and not others are selected, is a result of participation. People are allowed to make discoveries for themselves and raise objections, making it easier for them to accept the options that are finally chosen.

3. *Clarity in what is expected* of people after changes have been carried through. Practically all the work of change requires different behavior and competence and places fresh demands on performance. Through fair process, everyone is brought to understand and accept such changes.

4. *Collective learning* is a part of the process: people come around to seeing things from the same perspective. We have come across organizations where management had a pretty hazy notion of important concepts and the conditions for collective learning were absent.

5. *A higher ambition level* is almost always the result of fair process. The group doesn't have to be urged to greater effectiveness. It will want to perform better, with fewer resources, of its own accord.

6. A *loyalty to company decisions*, a commodity often missing, comes through fair process. In the Scandinavian business culture, as in some others, it is no longer the norm to follow instructions. People want to question everything, which is not a bad thing in itself, but it can lead to rebellion, as in the merger that was planned in 1992 between Volvo and Renault.

7. *The responsibility* for fulfilling goals is shared by everyone instead of falling automatically on the shoulders of the manager. Participants in fair process feel that they are responsible for decisions that are made.

Managements probably ignore fair process because of a lack of time, the effort involved and the conflicts that can arise. We have seen many instances of the outsourcing of organizational changes to consultancies where the resulting structures could not be understood by the people working in them. We have met senior managers in large companies who didn't know who they were delivering to, how external customer utility was created, or what figures controlled the performance of their own units.

Highly qualified people have a tendency to exaggerate the importance of analysis to the detriment of consensus. In benchmarking, we have often noticed how people feed huge quantities of data into esoteric systems but do not end up with significant results. Fair process requires human contact and that's a different ball game. We must be prepared for differences of opinion and conflicts of one sort or another. There has to be a framework for the learning process and above all, you must be prepared for all this to take time. Many regard fair process as a waste of human and other resources, but we still believe that it is an important element in the process of change and especially, in changing an organization. As they say in the USA, "You have to get your hands dirty."

What cannot be outsourced?

Extreme outsourcing is a close relation to the concept of "virtual organization". Virgin Cola is famous for having won a good 5% of the British cola market in one year with just five employees. So we can imagine a scenario where a number of people go through all the departments of an organization looking for what can be outsourced. For every candidate, the pros and cons of outsourcing are listed, as well as the risks and transaction costs before and after outsourcing. The point of this exercise is to introduce a contrast to the image of a fairly highly integrated business.

A number of areas should generally be retained under ownership control. Some of the most important of these are:

- Trademark
- Marketing strategy
- Research and development
- Specific production technology
- Competence development

These are by no means untouchable, however. There have been cases where development work has been outsourced to environments where the combination of creativity and productivity was higher than in the outsourcer organization. The trend towards globalization is causing a change in the comparative advantages enjoyed by different countries, and the new opportunities created can lead to reflection, not only about outsourcing, but on organizational structure itself. Highly specialized companies in areas like trademark and marketing strategy can also offer outsourcing in these activities that are normally at the center of company structure.

We can see an example of this in low-cost airlines like Southwest Airlines, easyJet and Ryanair, companies that have thought along similar lines and which differ greatly from highly integrated traditional airlines with a state monopoly background.

The thinking behind extreme outsourcing can be put down to strategy (a pattern of decisions and actions in the present to ensure future success) but it will naturally have far-reaching effects on the way businesses are organized.

Values and behavior

An organization's values command attention when it reorganizes and decides to question its cultural patterns. We define values as fundamental principles and behavior that give an organization its form and character, pervades its performance and shapes its culture. An organization's values have deep roots. Values outlast managements, strategies and technological breakthroughs. Values are the mortar that holds the bricks of the organization together when the business has been decentralized, diversified, developed or expanded. Values can be positive as well as negative: a readiness to change, openness, curiosity, conservatism, self-absorption and a disrespectful attitude towards women are some of the values that have been noted in organizations. When an organization works on its values, it seeks to bring to the fore the positive ones to re-point them into the company culture, and discard the rubble of negative values.

A government department described its business by comparing it to an iceberg. The movement of the iceberg is affected by winds above the water's surface and by currents below it. The winds comprise goals, procedures, processes, the organization's structure and everything that the management "owns". The currents are made up of old routines, traditions, relations and myths, all of which form the basis of the organization's values and culture. This department had worked for a long time on the winds without any significant changes, and so they concluded that they had to go to the bottom of the problem and try to harmonize the currents with management's intentions, bringing positive values to the surface and eliminating the negative ones, or at least diminishing them.

Research has called attention to the importance of working on values at every opportunity – at mergers, for instance, or in connection with outsourcing. New groups are created and are naturally expected to fit in effectively when a company reorganizes, while there will always be sub-cultures in organizations of a certain standing, which is why we emphasize the importance of assessing company values when contemplating organizational change.

When working with values it can be easy to get entangled in sophistry. What are values anyway? How do they relate to behavior, attitudes …? The psychodynamic perspective, i.e. examining the meaning of every tendency in an organization when it changes, has often dominated in this area and is all very well, but it rarely produces actual results. But we can recommend the application of cognitive behavioral therapy (CBT). CBT simply seeks to identify the kind of behavior an organization is happy or unhappy with, then looks for the kind of structures that will reward the positive behavior while eliminating or diminishing the negative behavior. By having this kind of effect on behavioral patterns, CBT helps an organization's basic values and culture to take on the desired orientation over a period of time.

It goes without saying that in all work on organizational values, changes must be top-down. Too many times have we witnessed management directives calling for a certain behavior, only for the management (often the instigator of the measure) to default on the desired action. Of course, this sends the wrong signals to the rest of the organization.

Deep corporate values can easily be forgotten when organizational structures are in the planning stage. We strongly recommend that time be set aside for dealing with them. We are in complete agreement with the majority of researchers when they state that how these issues are handled can be critical to the success of plans to organize or re-organize.

CHAPTER 7

Reorganization step by step

In development work, no one reorganization is like another, but there are a number of 'signposts' that can be followed on the way.

Table 2. Reorganization step by step

1. Current situation	**2. Pre-conditions**	**3. Design**	**4. Change**
• Motives • Diagnosis	• Ideological basis • Stakeholders • Decisions	• Processes • Structure (anatomy) • Working methods and systems (physiology) • Culture and values (psychology)	• Project formulation • Opposition • System changes • Checklist for change

We won't try to be all-inclusive for each phase keeping instead to the most important points with reference to other sections of the book.

Current situation

Experience and research show that businesses often embark on change for reasons that have nothing to do with the organization's best interests. If you are thinking about making changes to your organization, it's important therefore to be honest with yourself. Some of the motives for organizational change are:

A. Selfish interests: to further one's own career.

B. Power derived from influencing the actions of others.

C. Personal questions arising from people working together. Personal chemistry: sympathy/antipathy.

D. Current trends, such as flat organization, dividing an organization into business units, etc.

E. Calls for change from owners or company boards.

F. Indications that the effectiveness of operations is waning, or a fear of looming difficulties because of the external environment, business mission, etc.

All of these factors come down to our perception of reality, whether it be psychological or oriented to the business. The better our grip on this reality, the more pertinent changes will be. It might be a good idea to hire a devil's advocate to clarify motives by stimulating discussion. Remember, changing the organization may not be the solution to the problem! The other important component of this phase is producing the correct diagnosis and for this we need a clear picture of the reasons for reorganization. Symptoms that can be traced to the organization are, for example:

- Falling profitability
- Slower growth
- Coordination problems
- Internal focus
- Customer uncertainty
- Low productivity
- International investment
- Structural deals (acquisitions, mergers)
- Changes expected in the external environment

Before undertaking change, write down the symptoms that your new organization is going to cure. What problems will be dealt with, what strengths will be utilized, what opportunities will be taken, what threats will be nullified?

Pre-conditions

Start with the *basic propositions*. What we mean by this can be seen in more detail under the heading, "What is the ideological basis?", on page 67.

A business should be organized according to its orientation, which is why any organizational change should involve decisions on the organization's vision, strategies and business mission. The first things to be discussed and re-established should be:

1. Business mission/operating concept/assignments
   - What are the aims of the business?
2. Vision/ambition
   - What is the management or board's scenario for the long-term development of the business?
3. Strategic priorities/strategic agenda
   - Where should the business invest energy to realize its vision?
4. Organization culture
   - What culture and sub-cultures does the business have?

The ideal organization should provide effective deliveries to the important stakeholders of the business. One step in the reorganization process is thus to identify stakeholders and find out where their interests lie. Any organization is bound to have a fairly wide circle of stakeholders, organizations that in one way or another have an interest in the business. Such an interest might be of a financial nature (banks and investors), have a dependence relationship (competitors or partners) or a financial interest (customers and suppliers), or some other relationship. The most important stakeholder groups are normally customers, owners, and employees. Figure 19 shows how each principal stakeholder delivers value:

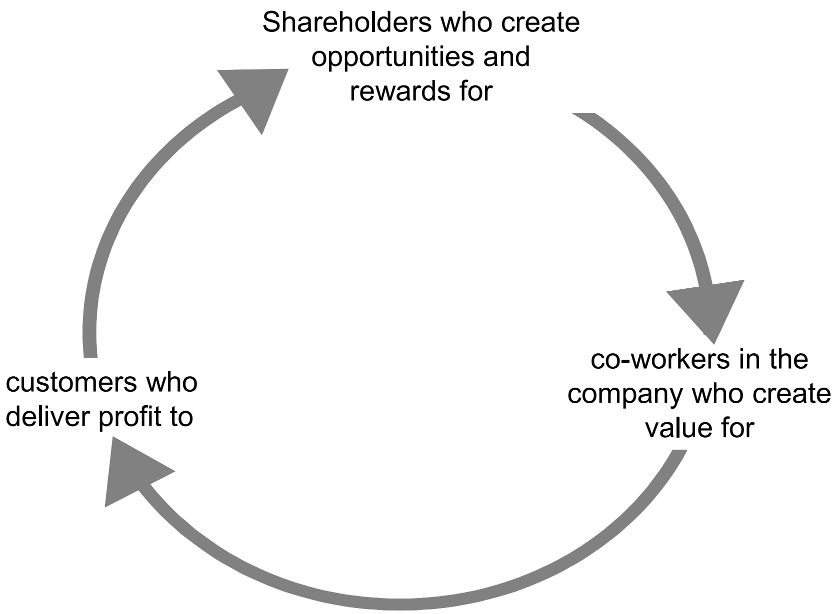


Figure 19. Stakeholder value circle

A little thought often produces a number of other stakeholders such as suppliers, investors or analysts, partners, as well as internal units and distributors. The modeling tool on page 116 can be very useful in this work.

From an organizational perspective, it can be interesting to discuss the following for each stakeholder relation:

- What do we get from our stakeholders? (for example, physical products, money, information, ideas, image, etc.)
- What do our stakeholders get from us? (see above)
- How well do the above relations function in the present organization?

What potential is there for improvement?

- How important is a stakeholder to us and how much time and energy do we devote to this stakeholder?
- What stakeholder entries are there to the organization?

Discussion of these questions can lead to an indication of an organization's potential for improvement. Your business might have a few important suppliers but lacking a main contact if purchasing has been decentralized at the division level. This might deny you an opportunity to close beneficial agreements or coordinate your purchasing, so the establishment of a central purchasing point might be something to pursue. The single most important stakeholder from an organizational perspective is the customer. The customer's needs today and tomorrow should always be studied before a reorganization (see "Customer Analysis" on page 112). A business normally defines its main processes on the basis of its customers.

Once our ideological foundation and stakeholder needs have been reviewed, we will have reached an important point concerning whether to reorganize. The decision we are faced with doesn't so much concern the structure of our organization, as whether reorganization is the solution to the problems we have been having and in fact will satisfy the needs of our stakeholders. We often make decisions intuitively, on gut feeling and the facts available, but because so much depends on the decision your are going to make, you might like to look again at the outline of decision-making methodology on page 105 in Chapter 6.

Learning from others makes sense in this kind of decision. Other businesses have very probably faced similar problems to yours and dealt with them in various ways, so why not make use of your external contacts? Useful information can be gained from both the disasters and the success stories. For more on this see *Benchlearning®* in Chapter 6. You might also be motivated to measure particular things: problem studies (page 125) have been shown to be an effective tool.

Design

A *process* comprises a series of refining activities that are carried out within a delimited area. A particular input and output are specified for the whole process and each sub-process (stage of the whole process). The processes of a business are usually divided into three different categories:

1. *Management processes*

   Management processes are used to orient and develop a business. They exercise a controlling function over the other processes of the business. Common management processes are the strategy process, the business planning process and the budget process.

2. *Main processes (also called business processes or core processes)*

   Main processes comprise those processes that are directly connected to the principal aim of the business and are often described in the business mission or operating concept. A business mission usually identifies a customer need so that a satisfied customer will pay for it. In commercial environments, these main processes describe a company's business, i.e. what it will make money from.

3. *Support processes*

   Support processes help the main processes to function effectively. Common support processes are personnel-related processes, IT processes and administrative processes.

To begin with a company's processes when reorganizing is to put the business before the structure, which experience has shown is a wise thing to do. The word 'processes' nowadays kindles little interest in some circles, being associated with detailed charts that at best only illustrate current operations. What we mean by processes are transcending descriptions of how we deliver value to our important stakeholders. Then we can determine how the business is to be managed and what main support processes will be required.

By s*tructure* we mean a definition of how an organization should be divided schematically and where its co-workers should be located. If the pre-conditions are right, we stand a good chance of finding the right structure. But to find the right basic structure, we first need to look at the division of work. Organizations have to find the right division of labor, then specialization can be introduced. Division of work can be discussed at the individual, or the group level. At an individual level, we are talking about the scope of the tasks assigned to each role. Should activities be fine-tuned as in

Table 3. Pros and cons with different types of organization

	Typical advantages	Typical disadvantages
Function	• Specialization/ "skull" advantages • Economies of scale • Avoidance of unnecessary work • Clarity/possibility for control	• Lack of coordination and customer focus • Cultural difficulties • Impossible to delegate accountability for results • No clear executive career line • Long changeover times
Division	• Decentralization of accountability for results • Short changeover times • Advantages of small-scale operations • Conditions for growth	• No utilization of advan-tages of skull and scale • Risk of unnecessary work • Risk of unfair internal competition • Difficulty with internal pricing • Undue focus (for example on products) • Weaknesses in non-commercial applications • Risk of greater centralization
Matrix	• Focusing on several dependency relationships (flexibility) • Intensive information pro-cessing • Effective distribution of resources	• Meaningless exercise excuse (ambiguous responsibility) • Risk of power struggles • Risk of group sickness • Weakness in adversity • Greater common costs • Navel-gazing • Decision indecision

scientific management, which favors intense specialization, or should we be looking at broader roles, with people trained to cover different jobs? The answer often lies somewhere in the middle. Too much specialization carries the risk of curbing motivation, while excessive generalization of work roles risks a decline in productivity. An organization is normally classified on the basis of one of the following types:

1. Function (from the assignments to be carried out).
2. Division (according to product, markets, customer categories).
3. Matrix (combinations of the first two).

Each type has its pros and cons. Below is a list of a number of points for and against each structure.

All organization boils down to finding the optimal division of work to satisfy the needs of important stakeholders and reach common goals. This is not to say that all the activities in the process chain are best carried out within one's own organization. More and more organizations are waking up to the use of outsourcing as an organizational component. For more on this, see page 92 in Chapter 5, under the heading "Organization boundaries".

We have defined an organization's processes and structure. Now we have to establish the *working methods* based on the principles of the new structure. Forms of collaboration, decision procedures, division of responsibility, and so on, must be clarified to avoid unnecessary work and discontinuities. Information systems, often an obstacle when changing an organization, must be aligned with the new structure. An organigraph is a useful tool to apply when the organization "comes alive". (page 123), modeling (page 115) and performance criteria (page 124). Some factors that should be dealt with are:

- Management. What management philosophy does the board or management have and how should it be put into practice?
- Measurability. What performances or results will management be able to follow up and use to control the different parts of the business?

- Interfaces. How are interfaces disposed in the organization and in respect of its stakeholders? Problems often arise in the gaps between processes, hierarchic designations, etc.
- Roles & responsibility. What delegating options should the organization accommodate and what decisions should be made at the various levels of the hierarchy?
- Reward systems. How should managers and employees at all levels be motivated to contribute to the organization's efforts in the short and long term?

An organization's *psychology* in terms of culture and values are not easy to understand and people who think in terms of structures commonly fail to give them the attention they need. The effects of changing an organization's structure and working methods can be nullified if its culture has not been sufficiently respected.

Change

Any reorganization is a rigorous, time-consuming exercise that can become very personal in that it changes the jobs of many people as well as the balance of power. Just as with other projects, it is very important to establish project groups, working methods, schedules, decision points and the budget.

The question that first arises is, Who is to do what in the organization work within the framework of the project groups started? The role of the board, the management group in its current form, the trade unions, and the extent to which consultants should be engaged: these are questions that must be addressed. Consultants can be used as sounding boards or project leaders, which would bring to the organization the experiences of other businesses and lend an objective eye to the process. But it's important for managers in the organization not to relinquish responsibility for the process of change and outsource the thinking to consultants. Consultants could handle specialist questions and provide the expertise on processes, with management taking care of business aspects, ambition level and decisions.

As in all reorganization, there is an almost infinite number of questions, all having varying importance in a specific situation. In the table below we give a menu of possible parameters for shaping the agenda in a specific reorganization situation.

Table 4. Parameters in the work of change

1. Clarity regarding strategy	8. Effectiveness	15. Centralized/decentralized
2. Organization	9. Performance requirements	16. Process modelling
3. Time axis	10. Participation – fair process	17. Management systems
4. In leaps or gradually	11. Leadership	18. Management development
5. Expansion or contraction	12. Competence requirements	19. Systems
6. Changed information	13. Breaking down goals	20. Culture
7. Clarity of goals	14. Need of vision/ambition	21. Communication

We would like to conclude with those little words of wisdom, "It all takes time". It takes time for a new organization to settle, so we shouldn't expect everything to work perfectly from day one. We know of managements who got so worked up when their new organization did not have the desired effect that they carried out another reorganization a few months later. When this one did not produce quick results either, they went in for yet another reorganization. Every time this happens employees take less notice than before, probably thinking to themselves, "I'll just carry on as I always have." Patience is a virtue in all reorganization, which in itself is not a good vehicle for short-term results.

This book is intended as a down-to-earth and reliable guide for those thinking of new organization. Our aim has been to provide relevant information on the subject so that readers can form their own models that will work in a specific situation. The number of variations on the theme of reorganization are probably infinite, but it seems to us that if people are aware of the various aspects of reorganization work and the tools available to deal with it, they will stand a good chance of avoiding the pitfalls and coming up with the best solution for their own situation.

An example from the pharmaceutical industry

One of the world's largest pharmaceutical companies operating globally was organized in a European country, manufacturing products for three main areas, including gastrointestinal and cardiovascular diseases. Apart from these business areas, there were a number of support functions involving both operations and staff. Many of its executives reported to the country manager. Schematically, the organization appears as shown in Figure 20.

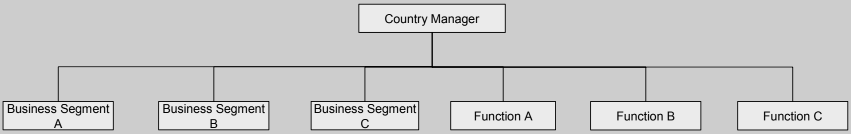


Figure 20. Organizational structure before changes

Many managers reported directly – to be exact, 11 functions. Sales and Markets were sorted under business areas. Sales mainly consisted of contacts with patients and prescription-writing doctors, while Markets met the needs of individual preparations for the creation of demand.

Problems encountered

The business areas and other large departments were like silos and the wheel was being reinvented again and again, with sub-optimization the order of the day. It was difficult for uniform behavior to gain acceptance across the organization. It was not clear where responsibility lay and there was vagueness at many levels when it came to making decisions. As far as the authorities in the European organization were concerned, there were forums for marketing managers, sales managers, medical management, and so on, so that any one company structure did not fit in with the Group's other companies in the country. The fact that 11 important executives reported directly to the Managing Director also created problems.

Conditions changed

The way the country in question dealt with pharmaceutical companies changed dramatically in a few years. The most important change has been in customers and the market. Decisions are now taken less often by individual doctors and to a much greater extent by medical committees or other more or less politically run bodies, which are given greater responsibility for costs. This has caused a revolution in the industry. Marketing and sales must now be directed at different individuals and groups than previously.

The symptoms for reorganization can be summarized in the following three points:

1. A change in the customer decision structure.
2. Difficulties experienced in the current organizational structure.
3. Difficulty in adapting to the circumstances of the Group.

To this should be added the explosive manufacture and sales of generics, i.e. medicines with the same effect as ones for which patents have expired and which are sold at lower prices than the brand names.

Core points in changes and the aim of the new organization

The aim of the organizational change was to do something about the problems in the organization, adapting it to the new decision-making pattern of the market and at the same time taking into account the dominating organizational set-up of the whole Group. The main goal was to ensure that patients had access to modern medicines under new conditions in the external environment. In this regard, there were three subsidiary goals for the new organization.

1. Come to terms with the new decision-making arrangement of prescription writers, calling for the influencing of groups other than the traditional medical profession.

2. Build effectiveness into the organization, i.e. do the right things and do things right (the hallmark of productivity and value).
3. Create an attractive workplace, involving development of the workforce and a focus on the customer.

Important elements in reconstruction

Some elements were fundamental to the new organization's anatomy, for example, the building of a functional organization to ensure specialization by function and effectiveness in bringing customers into contact with products in a changeable situation. Perhaps the most important element was the creation of a multi-functional team to focus on products, new decision-making bodies

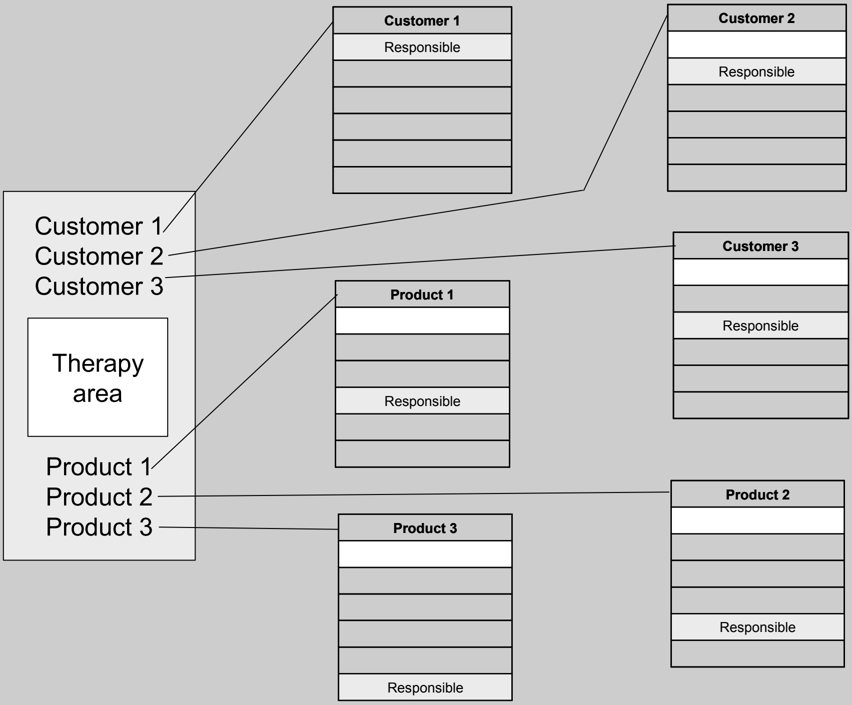


Figure 21. Principles for the new organization

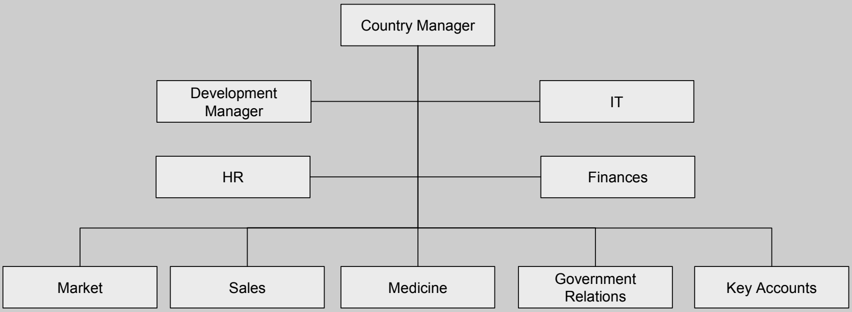


Figure 22. New organizational structure

in the market and different therapies. At the same time, plans were made to prioritize the work of decision-making bodies to secure clear goals, structured working methods and effective review. Figure 21 looks at the input from the units contributing to the organization's success.

The new organizational structure for the whole group is shown in Figure 22.

The lessons from this reorganization exercise were:

A. A lot of time was used up internally in the organization – much more time than people had expected.

B. Setting up the customer and product planning was initially very complicated. The cooperation of people and units who did not feel involved or were in too many internal meetings, was required.

C. An internal governance manual for the organization was made in the autumn, but it was too complicated.

D. A number of processes were outlined, which complicated things and got in the way of business.

E. At first, the authority for decisions was not clear.

F. Some questions were clearly more important than others. The importance of communicating the following cannot be over-emphasized:

1. Why are we doing this?
2. What do we actually want to have?
3. How is the selection process for each service organized?

G. When it came to implementing the new organization, too much time was spent on processes and structure and far too little time on who was to do what. And more time was needed for implementation and review.

It turned out, as so often happens in the work of change, that too much was invested in planning and construction, and not enough in informing people and carrying out the work.

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