THE FUTURE OF ORGANIZATION DESIGN

AN INTERPRETATIVE SYNTHESIS IN THREE THEMES

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Abstract: In the inaugural issue of the *Journal of Organization Design* (Vol. 1, #1, 2012), noted scholars and experienced practitioners presented their views on the future of organization design. The seven wise and provocative statements were subsequently discussed by members of the Organizational Design Community at a conference held at Harvard University on August 3, 2012. I was asked by *JOD* to monitor the discussion and identify the broad organization design themes that emerged. Although the discussion was wide ranging, three themes were noticeable. The first theme is that there are fundamentals of organization design, and all agreed that design involves creating a cohesive socio-technical system from a number of constituent elements. The second theme is that the boundaries of many newer organizational forms extend beyond that of the single firm, so the scope of organization design needs to expand to include ecosystems, collaborative communities, industries, and other supra-firm architectures. The third theme involves time and change, requiring a shift in focus from how organizations become stable and predictable to how they can become more agile.

Keywords: Organization design; new organizational forms

In today's global environment, organizational complexity and interdependence have increased due to globalization, technological development, the faster pace of economic life, and the continual need to change and adapt. Organization design theory and practice must keep pace with increased complexity and interdependence if it is to be useful.

FUNDAMENTAL CONCEPTS

Organization design addresses two fundamental issues: how to divide the organization's work into smaller units and then how to reassemble those parts into a meaningful whole. Complexity and interdependence arise naturally from this process and are at the heart of organization design (Alberts, 2012). Complexity is the number of different kinds of organizational units; interdependence is how they are related to each other. Given interdependence among the units, how can activities be coordinated? Coordination requires a balance between the creation of semi-independent units, or modularity (Baldwin, 2012), and the information-processing capacity of the organization to integrate activities within and across units (Galbraith, 2012). The law of requisite variety (Ashby, 1956) states that variety in the organization's internal environment must match the variety in the external environment. Given these fundamentals, Galbraith (2012) reminds us that, in many instances, "the future will look a lot like the past." Everyone agrees that complexity, interdependence, partitioning and modularity for partial independence, variety, and information-processing capacity are factors that influence how an organization's activities should be defined and coordinated. But do these factors necessarily mean the future will be much like the past?

Miles (2012) places the organization in its environment and emphasizes what is outside, particularly customers and markets. The organization must have a strategy which links the outside and inside, and that strategy must be continually adjusted to fit the changing environment. Thus, the choice of strategy is an essential input to organization design. Design without purpose and strategy is meaningless as stated by Chandler (1962) in his famous dictum, "structure follows strategy." Steinmetz, Bennett, and Håkonsson (2012) remind us that the organization is not just structure; talent, leadership, and management systems are essential as well. Although the fundamentals of organizing are well understood, there are numerous pressures on existing organization designs. In many arenas, organizational boundaries are being expanded in order to achieve increased scale and scope.

ORGANIZATIONAL BOUNDARIES

The choice of the boundary of the firm or organization is a specification of what is inside and what is outside. However, the choice of what is in and what is out must go beyond simple transactions cost logic (Tushman, Lakhani & Lifshitz-Assaf, 2012). Traditionally, the boundary of the firm has been defined in terms of property rights: what is owned is inside, what is not owned is outside. Economic and accounting models, as well as Weberian bureaucracy, follow this definition. Authority and responsibility, and consequently control and decision rights, are based on property rights. Agency and incentives are easy to specify. However, the traditional logic behind the specification of organizational boundaries is too limited in today's world, as management may involve multiple firms or parts of multiple firms. In the future, the boundaries of organizations will become design choices, driven by the organization's strategy. Further, boundary limits will be explored using various simulation methods, as organizational prototyping becomes more practical (Puranam, 2012).

As organizational boundaries shift, what was outside can now be inside, thereby increasing complexity. Tushman et al. (2012) discuss a multiplicity of boundaries. Baldwin (2012) discusses business ecosystems which include multiple firms and stakeholders outside the firm. Steinmetz et al. (2012) discuss joint ventures and regulators, and Alberts (2012) discusses inter-organizational problems, power "at the edge," and decision rights which are not property based. With permeable and dynamic boundaries, agility becomes a more important feature than stability (Alberts, 2012). Agile organizations will be able to accomplish more than traditional organizations. Innovators of new products can now be outside the organization. Customers can be part of management, with direct access to the firm's inventory, and they can schedule production as well as design their own products. By deftly combining supply chains and outsourcing, a lead firm can schedule individual machines at its supplier plants. Regulators and public interest groups have decision rights, particularly with respect to safety, pollution, and other issues in the public interest, and firms can stretch their boundaries to allow such groups to participate in corporate decision making. Thus, coordination of activities is now shared in the moment, with instant transactions and inexpensive communications across multiple property rights boundaries to create an expanded domain and greater complexity of organization design.

TIME, CHANGE, AND INNOVATION

New concepts and perspectives will be needed if we want to incorporate time and change into the organization design process. Alberts (2012) posits that agility is the challenge – not the creation of stability and predictability. Although top-down hierarchical mechanisms are good for the control and coordination of standardized operations, bottom-up and outside-in efforts are required to nurture innovation. Steinmetz et al. (2012) emphasize the need for bottom-up change, noting that the market for talent will become increasingly important. Baldwin (2012) calls for greater emphasis on fostering creativity in problem solving, expanding the entrepreneurial role of everybody in the organization. Tushman et al. (2012) see self-organizing communities as an important source of innovation in the future. They argue that the best innovations will emerge from everywhere: employees, customers, suppliers, and even in some cases the general public. As organizations push for the ability to innovate

continuously, managers will demand theories and design choices that improve cycle times and open up the innovation process.

FUTURE OF ORGANIZATION DESIGN

The various conference discussions, stimulated by the seven statements on the future of organization design, confirmed that design is an essential part of organizing and managing. The fundamentals of organization design can help to create organizations that are able to deal with a variety of structured, largely predictable situations. It is now the challenge for scholars and practitioners to build on the fundamentals to understand the multiplicity of organizational boundaries and to incorporate time and change into organization theory and practice.

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