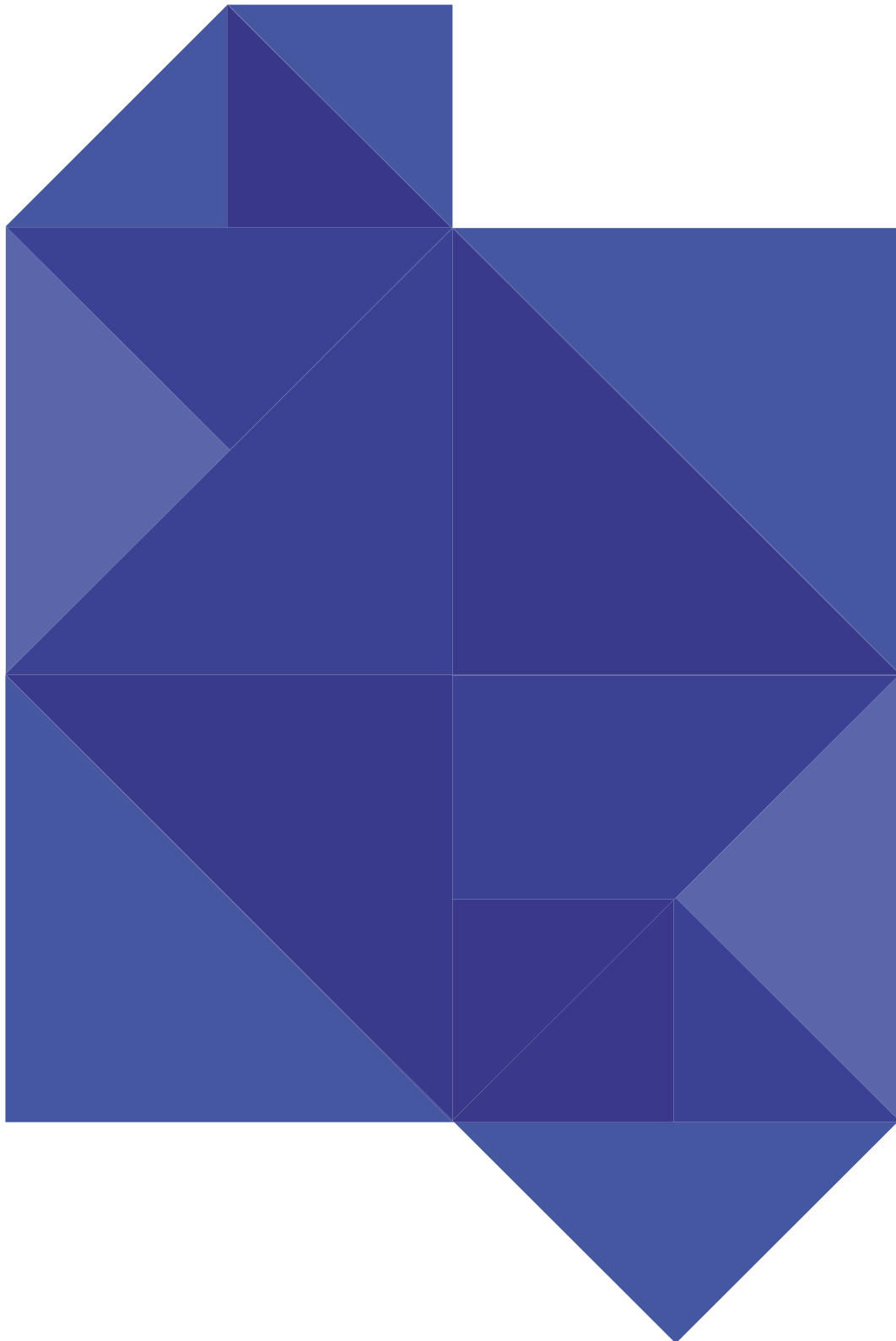


# organisational design



# organisational design

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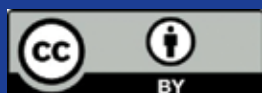
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# contents

the basic concepts	5
when to (re)design	9
start with strategy	11
the (re)design process	13
documenting the design	17
Testing your design	21
the right span of control	25
where should decision making sit?	27
centralisation versus decentralisation	29
connecting the parts	31
keeping certain parts apart	35
(re)designing organisations within a system	39
the 'real' design	41
appendices	45
a history of ideas	46
the main concepts	50
references	55
acknowledgements	58
contact us	58

# this publication

This publication has been written for organisational leaders in the Victorian Public Sector—specifically, people working in executive and senior management roles.

The purpose of the document is to help the reader become an informed decision maker, commissioner and/or consumer of actions relating to organisational design.

This publication does not talk about one particular type of organisation. Neither does it promote any particular design model or practice as being ‘the best’. Instead, the publication has been developed to provide information, insights and advice that may be useful for organisational leaders working in *any* public organisation and thinking about adopting or abandoning *any* type of design. Inevitably, however, certain content will be more (or less) applicable to certain situations.

It is important to note that the publication is presented as an ‘ideas sourcebook’ rather than a step-by-step ‘how to’ guide. It is a collection of ideas designed to stimulate and inform leadership thinking, judgement and decision making in the face of specific situations, opportunities and dilemmas.

# the basic concepts



Organisational (re)design is the art of dividing an organisation into operational parts, then connecting those parts together through structural arrangements and mechanisms for co-production, direction and control.<sup>1</sup>

The aim of organisational (re)design is to ensure that the organisation works well—that is, the organisation is able to deliver the results expected of it using the resources that are available to it.

A poorly designed organisation will mean that the organisation will be taking more time, spending more money, and losing more good staff and corporate knowledge than is warranted. Indeed, if the organisation is poorly designed, it may not be able to produce the results expected of it at all.



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<sup>1</sup> This definition draws upon the work of Henry Mintzberg who identified it as 'the sum total of the ways in which [an organisation] divides its labour into distinct tasks and then achieves coordination among them'. See H Mintzberg, *Structure in fives: designing effective organisations*, Prentice Hall Inc, 1983, p. 2.

## organisational design in a nutshell

An organisation's design:

- **is a consequence:** It is the result of a number of decisions made about what the organisation's goals are, what work needs to be undertaken to achieve those goals, how that work will be divided into component parts, how those component parts will connect (especially around the flow of information and other dependencies), and how organisational activities will be governed (controlled and accounted for).
- **comprises hard and soft elements:** The 'hard' elements include the organisation's structure, systems, processes, formal delegations and decision-making rights. The 'soft' elements are the way people relate to each other, how people solve problems outside standard organisational approaches and boundaries, and how information flows through the organisation on an everyday basis.
- **is articulated in both formal documents and through accepted practices:** Formal documents include mission statements, work programs, project plans, accountability and delegation maps, role descriptions and committee terms of reference. Accepted practices include the people commonly called upon for advice about particular issues and informal social groupings and networks.

- **is dynamic:** An organisation's design exists as a 'point in time' strategy for dealing with current demands and challenges. The organisation's design changes as a consequence of formal decisions (for example, made about work practices or allocation) and of evolutions in practice (for example, the implementation of work-arounds and short cuts over time).
- **is successful** when it helps the organisation operate effectively and efficiently.

In order to function well, an organisation's design needs to be supported by:

- **a functional culture** with individuals who are willing to work together for shared goals;
- **leadership behaviours** that support key aspects of the design;
- **individuals who are capable** of working in ways envisaged by the design decisions; and
- **capacity for change** so that the organisation and its design can evolve in useful ways without causing alarm, major disruption or harm.

## organisational (re)design in the public sector

There are some significant differences between public and private sector organisations that impact on public organisation designs and design decisions. Generally, these differences relate to aspects of organisational design decisions that are predetermined and thus are outside the control of the organisation's leadership. These include:

- **organisational form and function:** In the public sector, the boundaries of any given organisation—what functions are inside or fall outside the remit of the organisation—are not at the discretion of the organisation's head or Board. The functions that any given public sector organisation needs to perform and, often, the relationships the organisation needs to maintain, are prescribed by the government. They are set out in establishing documents (for example legislation or a constitution). For public service departments, functions are allocated and reallocated through 'machinery of government'. What this means is that decisions about an organisation's boundaries (what it does and does not do) are, to some extent, outside the organisation's control.

- **government policy focus:** Most public sector organisations exist to deliver the decisions of the government of the day (with some exceptions where public organisations have been established at arms-length). Different governments will have different areas of focus and different philosophical approaches. These differences will have an impact on organisational design decisions relating to the organisation's core functions, staff numbers, and organisational centralisation or decentralisation.
- **roles with specific functions, powers and accountabilities:** Legislation and similar instruments (such as Orders in Council) often vest particular roles with specific accountabilities, functions or powers. This specification often establishes a reporting relationship to, for example, a specific minister. These provisions effectively predetermine certain working and reporting relationships within an organisation.
- Sometimes legislation gives a specific role certain functions, powers and accountabilities, but does not provide the same functions, powers or accountabilities to their manager. This makes the traditional hierarchy-based approach to organisational design more complex. It requires an additional set of checks, balances and operational protocols to ensure that lines of accountability for different aspects of the organisation are clear and maintained.
- **role level parameters:** In some public organisations, the responsibilities, tasks and status of staff at different levels are framed by a classification system within the relevant employment agreement. In many cases these frameworks associate people management responsibilities with higher paid roles. This effectively predetermines where these roles must sit within the organisational structure.

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in the victorian public sector



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# when to (re)design

The most obvious catalyst for thinking about organisational design is the creation of a completely new organisation. However, in the public sector, this is a comparatively rare event. Even then, new public organisations are seldom created from scratch.

They are typically created from pre-existing organisations by, for example, joining together two or more divisions from other public organisations.

As a leader in a public organisation, your organisational design work will mostly be *re*-design work. This work is likely to be a consequence of one or more of the following situations:

- **changes in the external environment:** This can include changes to enabling legislation; regulatory environment; emergence or disappearance of an organisation operating in the same field; amount of funding available; sources of funding; technology; and/or the organisation's capacity to engage (recruit and retain) staff. Any of these events will have an impact on the nature of the organisation's work—what it does, with whom and how. In turn, the 'what' and 'how' shape, and are impacted by, the organisation's design.
- **externally imposed restructure:** This can occur when two or more organisations are merged to create a new one, or else a function is transferred from one organisation to another. In such cases, all organisations need to undertake some sort of redesign to reflect the 'losses' and the 'gains'.
- **change in organisational strategy:** This can include moving from or to direct service delivery, or from or to commissioning and brokerage roles.

- **failure or compelling opportunity:** This can be a failure to deliver results expected of the organisation, or a compelling opportunity to deliver better results. Or else, it can be the failure to use resources as efficiently as required, or a compelling opportunity to use resources more efficiently.

Organisations are sometimes redesigned for less compelling reasons. Given the expense, disruption and risk involved with changing an organisation's design, none of these reasons for redesigning an organisation are recommended as 'best practice'. These include:

- A new leader seeks to redesign the organisation as a way of making their mark on the organisation or to create an operating environment with which they are more comfortable (that is, to make their new organisation function like their old organisation).

There are easier ways for a leader to make their mark on the organisation. Moreover, it is likely that the design from another organisation won't fit the activity and culture of the leader's new organisation.

- There is a desire to make a design look better—to make it appear more logical, more symmetrical, neater, and easier to draw on paper.

An organisation's design should reflect and support how the organisation needs to work. Business needs and strategy should guide decision making about organisational design.<sup>2</sup> An organisation's design needs to be functional, not aesthetic. Organisations are complex and dynamic. They will never fit neatly into graphical representations in an organisational structure diagram.

This means that, for example, the comparative size of organisational units and the number of direct reports should be based on what will help the organisation work well and not on an unexamined belief that organisational units need to have the same number of staff and same sized budget.

- A key staff member is performing poorly or behaving badly. The redesign is a way of sidelining them.

Using organisational design as an alternative to effective performance management clearly fails the common sense test. It is not cost effective and is unlikely to deliver the intended result (at least not without a number of unintended consequences). No amount of redesigning can contain or limit the damage caused by a key staff member who is performing poorly or behaving badly.

Poor performance and behaviour is most easily and effectively dealt with through performance managing the person in question and, if that fails to deliver an improvement, then terminating their employment.

- A key staff member is performing well, but intending to leave. The redesign is a way of giving them power, status and control in an effort to retain them.

There is little evidence to suggest that rewards in the form of a bespoke role have any significant impact on retaining high performing staff in the long run. While they may stay slightly longer than otherwise, they are still likely to leave the organisation at some point. What this strategy can lead to, therefore, is a legacy of empty roles, or whole teams, that have no functional legitimacy and simply don't make sense once the key staff member has left the organisation. This can result in creating additional layers of hierarchy that help create status, but do not add value to the business.<sup>3</sup>

2 G Neilson & J Wulf, 'How many direct reports?', *Harvard Business Review*, April 2012, vol. 90, iss. 4, p. 118.

3 J Kilmann, M Shanahan, A Toma & K Zielinski, *Demystifying organization design: understanding the three critical elements*, Boston Consulting Group, June 2010, p. 2; and The Change Factory, 'Common errors in organisational design', (n.d.), viewed 28 May 2013, <<http://www.changefactory.com.au/articles/business-strategy/common-errors-in-organisational-design>>.

# start with strategy



Defining strategy involves describing the key things that the organisation will do (and won't do) in order to meet the expectations of external stakeholders, and to make the best use of the resources that are available (or can be made available) to it.

Who do we work for?

What qualities does our organisation need to have?

What does our work entail?

In a practical sense, defining strategy involves coming to conclusions about questions such as:

- **Who do we work for?**

- Who commissions (requests, allows) our work?
- Who are the recipients and beneficiaries of our organisation's work?
- What qualities do they expect in our work?
- What is more important for them: speed or high quality; speed or low cost; low cost or high quality?
- What can we provide for them that they can't get elsewhere?

- **What does our work entail?**

- Should we achieve results by producing, processing, repacking and/or delivering goods or services ourselves? Or should we achieve results by encouraging, enabling or commissioning others to provide goods or services to recipients and beneficiaries?
- Should our work be project or program-based?
- Is the substance of our work tangible or intangible?

- **What qualities does our organisation need to have?**

- Do we need permanence or transience in our organisation?
- Do we need to be conservative or innovative?
- What assets (including knowledge) do we need to own?

The point of this exercise is to come up with a list of key organisational characteristics—statements that say what your organisation is (and is not) and how your organisation does (and does not) achieve what is expected of it.

The list of organisational characteristics should be used to guide decision making at all stages of the (re)design process. After all, this is what your organisation's design needs to allow and to protect.

The list of organisational characteristics should be included with the final documentation of the organisation's design, for example, as a side bar on any organisational diagrams. This provides a ready reference point to help everyone understand why the design has certain features.

# the (re)design process



There is no one right way to go about the activity of coming up with a new organisational design. Much depends on why the design needs to change, the constraints and opportunities facing the organisation, and the culture and capability of the organisation's staff.

While there is no one right way, there are a number of considerations and principles that many leaders in public organisations have found to be helpful. These are:

- **Keep the development of the organisation's strategy separate from the process for designing the organisation.** The organisation's strategy needs to guide the organisation's design decisions, not the other way around. The strategy needs to be established first. Once established, the organisation is shaped to contribute to this strategy.
- **Determine design decision-making rights early on.** At the start of the process, identify who will make the ultimate decisions about different aspects of the design. Typically, the organisation's head will have the final say regarding the design of the whole organisation.
- **Establish and manage the design process as a project** with a clear scope, distinct tasks, accountabilities, timelines, milestones and resources.

- **Use the organisation's structure chart as a tool, but be aware of its limitations.** The organisation's structure chart is a handy tool for making abstract ideas concrete. Most people will use the existing organisational chart as the basis for seeing what could change and how. This is a useful way to get started.

However, it is important to be aware that using the organisation's existing organisational structure chart will give weight to the current arrangements and may prevent the identification of better ways of supporting the organisation's current strategy.

Also, the classic organisational structure chart is limited in its scope. It gives emphasis to vertical chains of command and organisational divisions. It obscures how the organisation is connected with the external environment, how information flows through the organisation, and how the organisation's work is co-produced. These aspects of the organisation's design need to be brought into discussions from the start.

- **Be aware of—and manage—the impact of self-interest.** Everyone in the organisation will have a vested interest in certain design decisions. This vested interest may make it difficult, or even impossible, to make objective decisions about the design. Some of the ways in which self-interest can be mitigated are:
  - to engage an outsider to provide impartial insights and advice. The outsider could be a consultant or someone who works in a different organisation; and
  - to create several design teams comprising staff from across the organisation and ask them to come up with design options (see the discussion on 'commissioning the staff to come up with the design' below).

## COMMISSIONING THE STAFF TO COME UP WITH THE DESIGN

Many public sector organisations have found that the best way to undertake organisational (re)design is to involve the organisation's staff from all levels. This increases the chance of seeing opportunities and pitfalls that the organisation's Executive may not be able to see.

Typically this involves seeking nominees to form one or more working groups. These working groups are then charged with developing organisational design proposals, which are presented to the organisation's Executive, who determines the final design on the basis of one or more proposals.

For this approach to be successful, staff teams need to be given training in the basic principles of organisational design, and coaching in the capacity to think strategically. The teams need to be given clear parameters about what is out of scope or non-negotiable in the final design.



- **Beware of the capability and system requirements of the design.** In order for certain design features to work effectively, relevant staff need to have certain capabilities. For example, some staff find a matrix model (where staff have two or more managers, each responsible for a particular domain of their work), impossible to work with. In some cases, organisations that have introduced a matrix model have had to abandon it because people simply didn't have the ability to make it work. The organisation's systems, particularly those relating to communication and data management, also need to be able to enable the ways of working envisaged by the design. For example, an organisation that adopts a decentralised model, with regional offices, will require good systems to keep those regional offices connected with each other and the organisation as a whole.<sup>4</sup>
- **Accept that organisational redesign means organisational change.** This needs to be factored into the design decisions. Some design proposals may be so different from the current design that they may be impossible—or at least very costly—to achieve. This may be enough to rule them out. At the very least, work on a change management plan should be undertaken in tandem with the redesign process, commencing once the scope of the new design takes shape. (For more about change management, see book 4 in this series: 'organisational change').
- **Make the design features, principles and assumptions explicit.** The design features, principles and assumptions will emerge from conversations about the organisation's strategy as well as conversations about certain design decisions. They are likely to change during the process; some may not become evident until the end of the process. Documenting them helps staff understand why key decisions have been made. They also help staff to make informed choices in the future about what they need to do in order to maintain the integrity of the design (if this is still important).
 

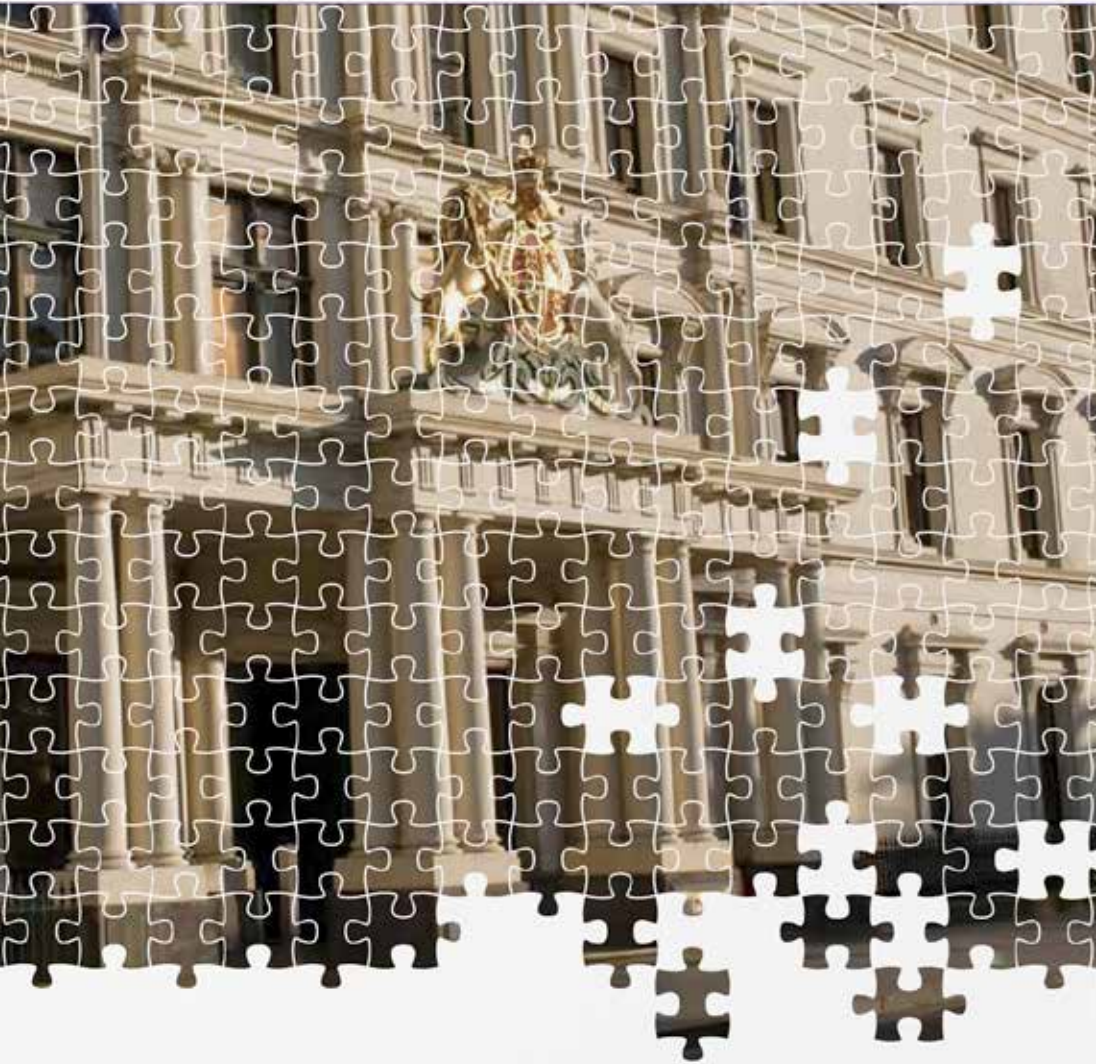
Some examples of underpinning design principles and assumptions that have emerged from design processes in Victorian Public Sector organisations include that:

  - No function will be duplicated.
  - Each role is intended to make a unique contribution rather than to be an enhancement of the role 'below' it.
  - Where possible, managers will have the same or greater delegations as the people who report to them.
  - Information needs to flow directly across the organisation, rather than through formal reporting lines.
  - The number of direct reports or the budget a manager has does not reflect the value they provide the organisation.
- Our business is not just ours; everything we do requires contributions from people outside our organisation.
- The organisation's structure is fluid, not static; it is appropriate for roles and relationships to change, evolve and emerge in response to changing stakeholder expectations of the organisation or the environment in which it works.

4 For more on managing a dispersed workforce, see State Services Authority, *Managing a dispersed team*, State Government of Victoria, Melbourne, 2013.

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# documenting the design



An organisation's design is the product of a number of decisions that are captured in a range of documents.

## the organisational structure chart

An organisation's structure chart is just one of these documents. It reflects some of the formal relationships in the organisation, but not all of the relationships.

The structure chart is a useful tool to prompt discussions and decision making during the design process. The familiar form and the visual nature of the structure chart offer an easy way into discussions about otherwise abstract problems and concepts.

However, the structure chart reflects only one aspect of an organisation's design (usually formal lines of direction and accountability). It is important, therefore, to bring other elements of organisational design into the visual documents at some stage during the design process.

The most useful additions to the standard organisational structure chart are:

<p><b>connections to outside:</b></p>	<p>Formal lines of direction, control, funding and reporting relationships between parts of the organisation and individuals and agencies outside the organisation—in other words, showing how the organisation sits within a larger system. The representation of the organisation's connections with the other individuals, groups or organisations can be enhanced by indicating:</p> <ul style="list-style-type: none"> <li>– the level of formality and the nature of the instruments establishing the relationships (for example, legislation, memorandum of understanding, contract or charter); and</li> <li>– the power relationships (that is, who directs and controls the actions of whom).</li> </ul>
<p><b>information flows:</b></p>	<p>Detail about how information, knowledge and intelligence move within the organisation, and from and to external parties.</p> <p>This can be shown on the traditional organisational structure chart with an overlay of colour coded lines, or shown on a second organisational chart where the connecting lines reflect flow of information, rather than accountability, direction and reporting. Or else, a process flow or decision-tree format may work best for you.</p> <p>Where there are some natural groupings, this could suggest value in co-locating staff or establishing formal committee arrangements. Also, in the same way that a traditional organisational structure chart shows which roles require management capability, mapping the information flows through the organisation will highlight roles for which knowledge worker capabilities are required.<sup>5</sup></p>
<p><b>a list of organisational characteristics (derived from the organisation's strategy) and design assumptions:</b></p>	<p>These can be thought of as a design's operating and care instructions. They set out what the design has been created to achieve and what is required for it to achieve its full potential.</p>

📌 📌 The fact is that there is an increasing number of organisational forms that cannot be simply illustrated by an organisational chart. The same can be applied to the many organisational activities that are undertaken underneath the formal organisational structure.<sup>6</sup> 📌 📌

5 Knowledge capabilities include skills such as questioning, analysis, systems thinking ('joining the dots') and communication.

6 CL Wang & PK Ahmed, 'The informal structure: hidden energies within the organisations', University of Wolverhampton, 2002, p. 6.

## other documents conveying aspects of the design

In addition to the organisation's structure chart, there are several other documents in which the organisation's design is established and described. It is important that each document is consistent with the others. These additional design documents include:

<b>accountability framework:</b>	A diagram or table that shows who is accountable for the organisation meeting the requirements in its enabling legislation (or similar) and in other relevant legislation (such as the <i>Public Administration Act 2004</i> and <i>Financial Management Act 1994</i> ). <sup>7</sup>
<b>delegations framework:</b>	A diagram or table that shows who is authorised to make specific decisions or undertake specific actions in the organisation. These include the decision to spend money; to engage or dismiss staff or contractors; and to discharge specific powers identified by the relevant act. The framework should indicate who is ultimately accountable for specific decisions or actions, who is responsible for undertaking work in support of the decisions or actions, who needs to be consulted before decisions or actions are taken, and who needs to be informed.
<b>committee meeting and network framework:</b>	A diagram (similar to an organisational structure chart) or table that outlines the governance and operational groups that meet regularly or intermittently and their directing, reporting and other working relationships with the rest of the organisation. It is useful to show through colour coding or another similar device the purpose of the different networks and committees (for example, audit and quality assurance, decision making, advisory, or information exchange).
<b>process charts:</b>	Diagrams or tables that show how key pieces of work are created by moving through the organisation and having people contribute to them.
<b>position descriptions and contract documents:</b>	Position descriptions and contract documents set out the accountabilities of particular roles and how the relevant roles relate to others, both in terms of reporting relationships and dependencies. To be effective, a position description should outline the extent to which the incumbent is responsible for the completion of specific tasks, and the decision rights associated with the role. <sup>8</sup>
<b>organisational policy documents:</b>	These documents set out either the standard processes (ways of doing things) that apply across the organisation or provide the parameters and principles for local decision making. As such, these documents establish the basis for cross-organisational relationships as well as the extent of centralisation and decentralisation.

7 For a list of key legislation, see State Services Authority, *Serving Victoria: a guide for public sector CEOs*, State Government of Victoria, Melbourne, 2011.

8 J Kilmann, M Shanahan, A Toma & K Zielinski, *Demystifying organization design: understanding the three critical elements*, Boston Consulting Group, June 2010, p. 3.



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# Testing your design

There are a number of ways you can test your design. Some of these are highlighted here. You may choose to use some or all of the checks. Different tests can be applied throughout the process.

Each set of questions presented below encourages you to look at the design from a different perspective. The aim of the questions is to help you uncover blind spots such as gaps or bottlenecks.

There are no absolute right or wrong answers for any of the questions. You need to determine what is appropriate for your situation, taking into account the characteristics of your organisation, its operating environment and various constraints.



## the view from government

Look at the legislation and/or other establishing documents that set out your organisation's role and functions. For each primary role or function identify the following.<sup>9</sup>

### accountability

Who, in the organisation, is accountable for each specific organisational role or function and the outcomes of these? Who has the final sign off and 'owns' the work?

- Does the accountability rest with one role, or is it shared across many? Is that appropriate?
- If the accountability is shared across many roles, are there sufficient and clearly articulated mechanisms so that there are no inconsistencies or gaps in accountability?

### need for consultation

Who needs to be consulted before any specific work relating to the primary role or function is commenced or concluded (signed off)?

(Keep in mind that the people who need to be consulted may not be employees of the organisation, but may be members of the government, the community or an industry body.)

- Who, in the organisation, is responsible for conducting these consultations and conveying the results of the consultation into the decision making of the organisation?
- Are all the people in the organisation who need to gain insights from these consultations explicitly and efficiently connected to the person responsible for conducting the consultations and conveying the results?

### responsibilities

Who is responsible for doing the work, taking into account organisational employees, contractors, and external partners?

- Are critical tasks spread too broadly across the organisation, or concentrated too tightly within a small number of roles? (Both scenarios can create risk. Spreading too broadly creates difficulties for achieving cohesion. A concentration of critical tasks increases the impact of turnover in those roles).
- Are there sufficient and clearly articulated mechanisms for connecting individuals and the work of everyone who contributes to the particular organisational role or function?

### need for information

Who needs to be informed about the commencement, conduct and completion of particular pieces of work related to the specific organisational role or function?

(Keep in mind that the people who need to be informed will be both employees of the organisation as well as external stakeholders including members of the government, the community or an industry body.)

- Who, in the organisation, is responsible for informing various parties about the work relating to the specific organisational role or function?
- Are all the people who need to be informed explicitly and efficiently connected to the person responsible for informing various parties?

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<sup>9</sup> This series of questions is based upon the RACI model (see the section on 'where should decision making sit?' later in this document).

## the view from the client

Think of someone outside the organisation who benefits from the organisation's work and needs to contact the organisation in order to obtain these benefits. This can be a fictitious (but believable) or a real person. (For the sake of readability, the term 'client' is adopted here; however, they can also be a customer, an advocate or a partner).

- How many different parts of the organisation does the client need to contact in order to receive the full range of benefits (services or products) they can reasonably obtain from the organisation? Is this too many, too few, or enough?
- How many different ways is the client likely to make contact with the organisation (for example, in person, by phone, by email, by letter, through an application, or by the organisation proactively contacting them)? Are all of the different ways in which the client is likely to contact the organisation adequately connected and supported within the organisation so that the client will experience the same quality of experience regardless of the means of contact?
- When making contact with the organisation, what might the client reasonably expect the relevant staff member to already know about them and their previous contacts? How easy is it for the relevant staff member to obtain this information?

- When making contact with the organisation, what sort of questions is the client likely to ask? How easy is it for the staff member in contact with the client to provide accurate and timely answers to these questions?
- If the client has a difficult request or wishes to make a complaint, how long will it take for this request or complaint to reach someone within the organisation who has the authority and capability to address it?

## the end-to-end view of an organisational process

Looking at the design of your organisation, pick a particular organisational function (such as providing a client service, developing a policy brief, or creating the organisation's annual budget) and ask the following questions:

- How many different roles/people are directly involved in this function from start to finish? Are there too many from the perspective of efficiency and skills development?
- How many handovers (of clients, information, product etc.) are involved during this activity from start to finish? Are there too many from the perspective of efficiency and risk?

- To what extent does the activity rely upon contributions from people who are not employed by the organisation? (This can be expressed as a percentage or a ratio). Is this balance right?
- At each handover point, who is responsible? That is, who needs to make sure the work is given and received, and then acted upon in a timely way? What ambiguities need to be rectified?
- How many different record management systems (ICT or otherwise) are used from start to finish for the activity? Are there too many from the perspective of efficiency, speed and risk management?
- Who (or what, in terms of a committee) is able to see, assess and identify improvements to the activity from end-to-end process *and* stakeholder expectation perspectives? Does this person or committee have the authority and responsibility for making necessary improvements in light of their insights?

### the view from particular roles

Select a role and ask:

- What kinds of decisions will the person in this role need to make? Is this role placed appropriately within the organisation in terms of access to authority for decision making, direction/supervision and information for the decisions that need to be made?
- How many other roles does this role rely upon in order to perform the work? Are these dependencies sufficiently clear in the material used to document the design and how it functions?
- If this role did not exist, what could and could not work?
- What are the realistic career pathways for someone in this role? Are these career opportunities likely to be attractive to someone performing that role? Are these career pathways promoted within the organisation and supported by management practices and development programs?

### the view from the culture

Think about what needs to be valued in the organisation and the desired norms of behaviour:

- What aspects of the organisation's design support, allow, promote, and/or create these values and behaviours?
- What aspects of the organisation's design discourage, inhibit, obscure, and/or destroy these values and behaviours?
- What values and behaviours are likely to emerge as a consequence of the organisation's design? Are these values and behaviours acceptable?

### the view from a risk management perspective

Look across the organisation:

- Identify gatekeepers (the role(s) that will be required to make most of the formal 'signing off' decisions in any typical day):
  - Are the gatekeepers placed at the right place in the organisation, so that they will have easy access to the right information and advice to make informed decisions?
  - Will the volume of decisions they are required to make be difficult to make well, potentially leading to bottlenecks?
- Who, in the organisation, will be the first to know that the organisation may be failing to meet the expectations of external stakeholders?
  - Are they appropriately connected with the organisation in a way that will allow them to inform and influence the activities of the organisation?



# the right span of control

The span of control refers to the number people who formally report to an individual manager.

Larger spans of control can reduce management costs (fewer senior staff are required). Larger spans of control, especially for very senior leadership roles, can help create a clear focus on the organisation's priorities and areas of accountability, where each of the senior leader's direct reports is responsible for one of the organisation's key accountabilities. However, large spans of control can make organisations sluggish if decision making isn't devolved.

The traditional view is that managers should directly supervise around five individuals.<sup>10</sup> Since the 1980s, there has been an increase in spans of control, including at the CEO level. A study of the Fortune 500 companies found that the average number of direct reports to CEOs has doubled from 4.7 (in the late 1980s) to 9.8 (in the mid 2000s).<sup>11</sup> In 2012, the average number of direct reports to the Victorian Public Service departmental secretaries and CEOs of major Victorian Public Service agencies was 7.5, with the number ranging from 4 to 12.



<sup>10</sup> N Stanford, *Guide to organisation design: creating high-performing and adaptable enterprises*, The Economist Newspaper Ltd, London, 2007, p. 68.

<sup>11</sup> G Neilson & J Wulf, 'How many direct reports?', *Harvard Business Review*, April 2012, vol. 90, iss. 4.

“ In most public-sector organisations, optimal design generally reduces the number of layers across the organisation. More than eight layers of management—and managers with fewer than seven spans of control—tend to make public and private sector organisations sluggish and overly complex and bureaucratic.<sup>12</sup> ”

The contemporary view is that the span of control depends on:

- employee characteristics such as their capacity for self-direction and motivation.
- characteristics of the work being done, such as the amount of standardised or routine tasks may necessitate.<sup>13</sup>
- physical proximity of subordinates and the effectiveness of communications technology to allow effective communication when there is a physical separation between a manager and the people whose work they direct.
- the budget available, which influences the number of managers that can be engaged in the organisation.

- characteristics of the environment in which the work is undertaken.<sup>14</sup>
- the organisation's or division's position in the life cycle.<sup>15</sup>

Finally, it should be noted that, while 'span of control' is the aspect of a manager's role most frequently talked about in the context of organisational design, contemporary writers have identified four 'spans' that are worth paying attention to:<sup>16</sup>

- **span of control:** The size of the resources (financial and human) allocated to a role. Fewer resources means a narrower span of control.
- **span of accountability:** The specificity of the performance measures against which an individual will be assessed. For example, a performance measure based on achieving a specific financial outcome or staff headcount allows little freedom, and hence is a narrow span of accountability.

By contrast, a performance measure based upon broad achievement, such as increasing customer satisfaction or organisational efficiencies, is a wide span of accountability as it allows greater freedom of both interpretation of achievement and the way in which the performance goal is met.

- **span of influence:** The extent to which an individual is required to assert influence across the whole organisation or beyond, outside their immediate work team (span of control) or performance measures (span of accountability). Requiring people to pay attention only to their jobs creates a narrow span of influence. By contrast, requiring people to participate in cross-divisional projects and activities creates a wider span of influence.
- **span of support:** The extent to which an individual (and their achievements) is acknowledged as an individual or as part of a broader context. Providing reward to individuals for their performance creates a narrow span of support. By contrast, providing rewards to groups on the basis of group performance creates a wider span of support.

12 M Shanahan, A Bailey & J Puckett, 'Demystifying organizational design in the public sector', *bcg perspectives*, Boston Consulting Group, November 2011.

13 Neilson & Wulf, op. cit., p. 116.

14 Robbins, Bergman, Stagg & Coulter, 'Management', *Organisational structure and design*, Pearson Education Australia, 2006, chapter 10.

15 G Neilson & J Wulf, 'How many direct reports?', *Harvard Business Review*, April 2012, vol. 90, iss. 4, p. 116.

16 R Simons, 'Designing high-performance jobs', *Harvard Business Review*, July–August 2005, p. 58.

# where should decision making sit?

This is a question about how far 'down the line' authority can be passed from the authority's original owner.

In answering this question, it is useful to focus not just on who is authorised to make specific decisions, but also on the extent to which the decision makers have sufficient knowledge and incentives to make good decisions.

One principle is that decisions should be made by those with the greatest expertise relevant to the decision. Another principle is that decisions should be made by those who will stand to suffer most from a poor decision. In the real world, these principles are often in conflict, and a trade-off is required.<sup>17</sup>

In practice, there are three factors to consider when determining decision rights:

1. Is the requisite knowledge contained in a single unit or distributed across the organisation? (Distributed knowledge suggests a need for decision making higher up the hierarchy);
2. Is the impact of the decision localised or more broadly felt? (A broader impact suggests a need for decision making higher up the hierarchy); and
3. How easy is it to transfer information and knowledge if required? (If an individual is able to access relevant information and knowledge quickly, they will be able to make decisions better than someone who cannot access information and knowledge).<sup>18</sup>

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<sup>17</sup> S Athey & J Roberts, 'Organizational design: decision rights and incentive contracts', *American Economic Review*, 2001, vol. 91, iss. 2, pp. 200–205.

<sup>18</sup> PriceWaterhouseCoopers, 'Key principles of organization design: diagnosing issues in a company's structure', January 2009, p. 4.

“ There is no logic which says that...those who take the necessary earlier decisions [should be] higher in the hierarchy than those who implement them. That is where history comes in, for those who got there first obviously set things up this way.”<sup>19</sup>

Of course, no matter where the decision making authority rests, both the organisation’s leadership and its front line—as well as the management layers in between—have a role to play in the decision making process. Leaders need to provide information to the front line about the ‘big picture’ (where the front line is making certain decisions). The front line needs to brief leaders about technical details (where the leaders are making certain decisions). The people in between convey the information and add their own insights and perspectives to enrich its value.

The RACI governance framework can be helpful as it provides a picture of the decision-making process within an organisation. It looks at who should be involved in decision making, rather than just who is authorised to make the decision. RACI is an acronym for *responsible, accountable, consulted, informed*.

**Responsibility** indicates an obligation to contribute to something—to *respond* to a request. **Accountability** indicates answerability for something being achieved, going right or going wrong. Someone can be accountable for something without being *responsible* for doing it. Conversely, someone can be responsible for doing something but not accountable for the success or otherwise of the outcomes. **Consulted** and **informed** are two aspects of communication—listening and telling.

A final thought about decision-making rights; the capacity to make decisions about work is a key factor in employees feeling in control, and feeling in control is a key contributor to job satisfaction. In turn, employee job satisfaction has a strong correlation with customer satisfaction.<sup>20</sup>

Therefore, determining decision rights should be done on the basis of business logic (relationship to knowledge and impact) as well as consideration of the emotional impact of giving or removing decision rights from certain people.

## AN ORGANISATION’S DESIGN CONVEYS POWERFUL MESSAGES

An organisation’s structure is tangible evidence of its strategies, priorities and interests. The creation of a work unit demonstrates to people within and outside the organisation that this area of activity is important. The creation of a reporting relationship demonstrates the relative value and risk of certain activities. The names used to identify parts of the organisation also convey important messages. Organisational design can be used to give status to things that, otherwise, may not get attention (because they have comparatively small budgets or community profile). Also, organisational design can give clear status to political and community priorities for the organisation.

19 C Handy, quoted in E McMillan, ‘Considering organisation structure and design from a complexity paradigm perspective’, in G Frizzelle & H Richards (eds), *Tackling industrial complexity: the ideas that make a difference*, University of Cambridge, 2002.

20 L Gettler, ‘Finding the right management structure’, March 2011, viewed 27 May 2013, <<http://www.smartcompany.com.au/strategy/20110301-finding-the-balance-between-strategy-and-structure.html>>.

# centralisation versus decentralisation



In a centralised model, decisions about the work or common tasks (such as research, policy development, financial reporting, HR activities or filing) are undertaken by a 'central' division whose only role is to perform these tasks.

They perform this work for all the other divisions in the organisation. A variant of this concept is a shared service, where certain common functions (typically corporate functions) are shared across multiple agencies or business units.

Through the co-location of people with similar skill sets and work activities, centralisation can foster the development of highly specialised capabilities.

The benefits of centralisation can include greater innovation (arising from pooling of knowledge and expertise), cost savings (arising from building core expertise or standardising procedures), and greater cohesion across the whole organisation (because different parts of the organisation come together at the centralised point).

## THERE IS NO PERFECT ORGANISATIONAL DESIGN

The design decisions need to work for the organisation and the people who work *within* it and *with* it. This may mean that the design is a blend of standard and unusual elements. Whatever works — from the perspective of direction, control, productivity, specific opportunities and risks—is the right design. However, a good design should also be easy to understand. Too much mixing and matching may make a design too difficult for people to understand or work with.

On the other hand, centralisation can lead to:

- disconnection, where the centralised activities are performed without any focus on their contribution to the organisation's other activities or the communities it serves;
- delays, caused by bottlenecks as work from across the organisation needs to compete for prioritisation; and
- lack of accountability, where front line staff can blame the central staff, systems and processes for various failures, and conversely the central staff can blame front line staff for not providing information in a timely or accurate manner.

In a decentralised model, each organisational unit undertakes some or all of these common activities or tasks themselves.

The benefits of decentralisation include the ability for local problems to be addressed quickly and easily by local managers, and flexibility can be created by virtue of locally adaptive systems and practices.

On the down side, decentralisation can lead to:

- separatism, where a division acts as if it is independent of the whole organisation;
- duplication, where the organisation ends up paying for multiple staff or systems to do the same thing;
- disconnection, where the way of working in one division does not connect with the way of working in other parts of the organisation, making reporting and risk management difficult from a whole-of-organisation perspective; and
- increased vulnerability of individual parts of the organisation to workforce and succession risks.

Many public sector organisations move between centralisation and decentralisation over time. They do this to capitalise on the benefits of each model that are appropriate for different stages of the organisation's lifecycle or the demands of the operating environment. For example, an organisation that is lacking cohesion or is having to work with reduced resources may move to centralisation. An organisation whose work has become more varied may move to decentralisation.

In the last decade, there has been a growing number of both public and private sector organisations that have implemented a hybrid approach, which seeks to adopt the best aspects of both centralisation and decentralisation. For example, certain functions such as finance and procurement may be centralised to save costs, whereas recruitment may be decentralised to allow individual units of an organisation to manage their own staffing needs. Or else, staff working within a centralised unit will have account or portfolio responsibilities, in which an individual will be required to develop expertise in a specific part of the organisation serviced by the centralised unit.

Neither a centralised nor a decentralised model will work if the organisation does not have a strong culture of trust and communication, and a clear understanding of the organisation's role that is shared by all staff.

# connecting the parts



Dividing an organisation into component parts can be relatively easy; ensuring that the component parts connect with each other can be difficult.

Parts of an organisation typically come together on the basis of one or more of six reasons to connect:<sup>21</sup>

1. **knowledge assets:** Sharing business intelligence, experience and expertise about how to undertake a particular business task or address a business challenge well.
2. **physical assets:** Creating economic efficiencies (that is, economies of scale and removal of duplication), by pooling resources and using common assets.
3. **power enhancement:** Joining forces to strengthen a negotiating position, for example, in a procurement or contract negotiation situation, or in lobbying a particular stakeholder.
4. **coordination:** Agreeing to a division of labour or alignment of strategy between two or more units to achieve a common goal.

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21 M Gould & A Campbell, 'Do you have a well-designed organization?', *Harvard Business Review*, March 2002, p. 121.

**5. holistic service delivery:**

Working together to provide a complete and seamless service delivery experience for the organisation's key stakeholders.

**6. innovation:** Identifying opportunities for new ways of working or new service offerings by sharing business information and intelligences relating to opportunities and threats.

Connections are generally achieved through formal and informal structures. Generally, it is better for managers and other staff working in different units to develop the mode of connecting that works best for them. However, sometimes this may not occur because, for example, individuals cannot see the benefits of connecting, have no incentives to do so, or lack the skills to achieve productive connections. In such cases, an organisation's senior leadership may need to intervene and take steps to foster connections (for example, by building skills, providing incentives or designing work so that it forces connectivity).<sup>22</sup>

Some of the most common ways of fostering connection between two or more parts of an organisation or system include:

- **formal governance arrangements** (such as sign-off and reporting practices) that establish accountabilities and responsibilities to individuals, and the formal monitoring and reporting relationships associated with these.
- **formal working relationships** that dictate who must work with whom, what information must be provided to whom, when and for what purpose.
- **information and communication technology systems** that collect and provide access to information from across the organisation and over time.
- **liaison or coordination roles** whereby individuals are assigned with responsibility for facilitating interactions between two or more groups.
- **intra- and inter-organisational groups** comprising representatives from different groups, either permanently or temporarily. The groups may range from informal, loose affiliations to formal governance committees.
- **integrator roles** whose purpose is to broker decision-making processes across multiple units (e.g. regional directors).
- **key performance indicators** that specifically require, acknowledge and reward working with others in the course of undertaking work.





Key processes for collaboration are too often seen as mere contests with winners and losers rather than as platforms for effective teaming. Leaders need to focus on these processes and ensure that the right people—with the right information and the right motivation are collaborating effectively to get the work done... Well designed mechanisms can mean the difference between the success and failure of an organisation design.<sup>23</sup>

## ‘WHITE SPACE’ AND ‘GREY AREAS’ ARE AN ORGANISATION’S VULNERABILITY

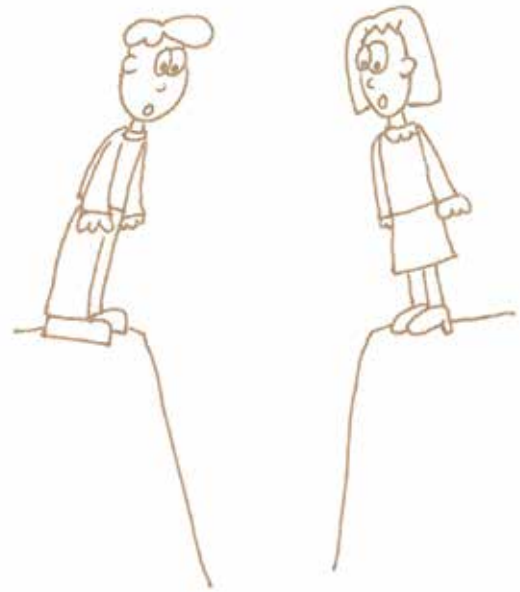
‘White spaces’ are the areas of the organisation for which no one is responsible. They are the accountabilities, tasks, or relationships that have been overlooked.

‘Grey areas’ are similar, but are the areas of the organisation over which several people claim primary accountability or ‘ownership’.

Whites spaces or grey areas commonly occur at the point where a process or information needs to move from one part of the organisation to another. Left unmanaged, white spaces and grey areas become a source of tension, conflict, time wasting, failure of accountability, poor decision making, and risk.

To avoid the problem of white spaces and grey areas, the (re)design of the organisation’s structure should be undertaken at the same time as the organisation’s processes are also (re)designed.<sup>24</sup> Better still, the organisation’s processes should be designed first, and the organisation’s structure designed to fit around them.

At the very least, the white spaces and grey areas should be identified (named) and strategies put in place to mitigate the impact of them.



<sup>23</sup> M Shanahan, A Bailey, & J Puckett, ‘Demystifying organization design in the public sector’, *bcg perspectives*, Boston Consulting Group, November 2011, p. 3.

<sup>24</sup> The concept of ‘white space’ was introduced by G Rummier and A Brache in T Hernaes, ‘Process-based organization design model: theoretical review and model conceptualization’, *Third international workshop on organization design*, 18–20 May 2008, Aarhus, Denmark.

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# keeping certain parts apart

## **silos are generally unhelpful**

Silos are parts of an organisation that stand apart from the rest of organisation in terms of what is valued most, perspectives and behaviours.

In the main, silos are unhelpful in organisations. They lead to divisive 'us and them' attitudes or empire-building leadership tendencies. They can also lead to the duplication of systems and common activities, such as staff development. They work against organisational agility, not least because they can make the experience of moving from one part of the organisation to another akin to the experience of moving to a foreign country.

A key design consideration, therefore, is to avoid creating silos where these sorts of divisions in the organisation will be unhelpful.

## **some organisational separations are helpful**

However, there are some situations in which silos are useful. This is generally where there is benefit in having staff that can provide an alternative viewpoint from others in the organisation. This is particularly useful in environments where the nature of the work is such that staff in certain divisions are so 'captured' by their work—the needs of the people they serve or the theory underpinning their practice—that they are unable to bring an objective perspective to it.

Some of the most common and probably beneficial silos, or silo-like divisions, in an organisation include:

- roles that perform an internal audit, review or integrity functions. In order to provide value, people performing these roles need to be quarantined from some of the beliefs, practices and conventions that characterise most of the work in the organisation.
- roles that provide impartial advice and support. For example, certain HR roles that provide mediation and advisory services for the organisation may be required to provide advice and support to both a manager and a staff member who are in conflict. For this, they need to be able to have a certain distance from both. Many organisations have legal staff who provide legal advice for staff in their work. An argument can be made that, in order to provide this advice, the legal office should not have a vested interest in the work (for example, through being a member of the team who created the relevant project or program).
- roles that, if brought together, would create a conflict of interest or diminish organisational credibility. Some public organisations have legislative functions that require a separation of activities to maintain the integrity of each function.

The merits of some other common structural separations are less clear. These include the structural separation between:

- policy and delivery roles. This separation may provide policy staff with the opportunity for fresh and innovative thinking. On the other hand, the separation may mean that policy is taken in directions that are not feasible because they overlook constraints that are visible only to practitioners.
- externally branded roles. Some public organisations provide services or conduct activities that are branded (that is 'marketed') in a way that sets them apart from their 'parent' organisation. There can be good reasons to create a separate brand for a particular service or activity. However, 'further back' in the organisation, the benefits of maintaining the separation between a branded service or activity and the rest of the organisation are less clear. This is especially the case where the branded service or activity draws upon the same sort of 'back-of-house' activities as all of the organisation's other services and activities.

## ethical screens

Creating a silo through organisational design can sometimes be necessary, but not always.

Separations within organisations can be created by ethical screens.<sup>25</sup> An ethical screen is a set of practices and protocols regarding who shares what information with whom and when.

The screens are temporary. They are erected around certain activities or certain pieces of information. As such, they do not need to correspond with, or form the basis of, formal divisional boundaries within an organisation. Screens can exist within a division where staff are (for most of the time) colleagues. There is simply an agreement that staff do not talk about or share information with each other as it relates to specific activities.

The advantage of screens is that, because they aren't structural, they can be established or redrawn on an as-needs basis. This helps to maintain organisational flexibility and cohesion.

However, screens are less visible than structural divisions within an organisation. To work well, staff need to have high levels of personal ethics, maturity, judgement and engagement with the organisation.

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<sup>25</sup> Previously, this concept was referred to as a 'Chinese wall'. The terms 'screen', 'firewall', 'cone of silence' and 'ethical screen' are now often used instead.

## mix and match

As indicated earlier, organisational silos can be used to quarantine certain internal support functions that need to bring impartiality and objectivity to their work. However, rather than creating silos, the same impartiality and objectivity can be achieved by placing people who perform these roles in different divisions across the organisation. From these positions, they can still provide impartial and objective advice to other divisions within the organisation. However, they would not provide the same advice to the division in which they work.

For example, HR, legal or policy staff can be situated within, contribute to, and be socially a part of various divisions in the organisation. When an impartial or objective perspective is required, they can be called upon to provide that, but only with regards to another division, not their own.

This approach has the advantage that people performing these roles can provide useful assistance to the staff in the division around them—and thereby remain connected with the work and practical realities of the business—while also being able to provide a fresh perspective for others in the organisation.

This approach works best for very large organisations. It also works best when the embedded staff have the opportunity to come together, from time to time, as a community of practice for the purpose of ensuring consistent practice and standards.

## bridges

Where organisational silos are created by design, it is important to put in place strategies for ensuring that there are adequate and appropriate connections between the silo and the body of the organisation.

This is important to ensure so that the people working in the silo do not feel isolated, sidelined, unappreciated, or superior (all of which can lead to disengagement and poor behaviour). It is also important to ensure that people within the silo are still part of the loop in terms of information relating to the organisation and matters affecting it.

Bridges are most effectively built through:

- overarching visions, goals, missions and values that underpin the work of the entire organisation;
- communication protocols between the silo and the rest of the organisation;
- systems and processes; and
- practices that can be shared across the organisation without compromising the separateness of the 'siloed' roles.



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# (re)designing organisations within a system

 An organisation's work (and responsibilities) does not end at its boundaries. A systems approach to organisational design goes beyond assigning accountability and tasks within the boundaries of just one organisation.

Rather, it takes into account where, in the whole system (for example the health, education or economic system) particular activities and accountability measures are best placed. Sometimes an organisation will decide that particular functions are best undertaken outside the organisation. This is a decision that redraws the boundaries of the organisation in terms of work, but not accountability. The accountability still needs to be addressed in the organisation's design, even if the work is carried out by people outside the organisation.

Even if an organisation does not outsource any of its work, consideration still needs to be given to, as part of the organisational design process, where and how the organisation connects with other organisations. Consideration should be given to:

- the extent to which the organisation's success is contingent upon contributions from other organisations. Where and how do these contributions enter the organisation? Is this the right place?
- the extent to which the organisation contributes to the success of other organisations. Which parts of the organisation make these contributions? Are these the right places for these connections?
- the extent to which there are opportunities for economies of scale and other advantages by coming together with other organisations around common functions or challenges. Where and how are these collaborative connections made by the organisation? Are these the right places for the connections?
- the way in which information travels from outside to inside the organisation. Where does information enter the organisation? How does information from outside the organisation then move around the organisation, so that everybody who would benefit from the information receives it?

Of course, an organisation's design is only one factor in how well an organisation connects with the system in which it operates. Connectivity is also enabled (or inhibited) by:

- the capabilities of key staff (including communication and negotiation skills, and personal qualities such as emotional intelligence);
- the organisation's culture, and the extent to which openness, sharing and collaboration is valued, supported and rewarded; and
- general compatibility factors (such as compatible legislative mandates and ease of contact).



# the ‘real’ design

## the informal design

Organisations operate in two ways: a formal way and an informal way.

The formal design of your organisation is the one that is set out in various documents (discussed earlier in the ‘documenting the design’ chapter). Activities undertaken in line with this formal design are typically formally recorded (through, for example, minutes, file notes and performance management tools).

Very few contemporary organisations operate solely in a formal manner. For example, work information is typically exchanged freely and frequently between people outside and in addition to the committees, meetings and reporting relationships formally established for this task. Moreover, it is widely accepted that the informal relationships and processes do not always coincide with the ‘on paper’ versions of relationships and processes for exchanging information and making decisions.<sup>26</sup>

“ An organisation is a metaphysical object of our thinking and communication. An organisation is not a physical thing, with a mass, Euclidian dimensions, nor weight. If we say that ‘we observe an organisation’, in reality we infer the existence of an organisation from various facts and behaviours in the way we infer the lines of a magnetic field from the patterns of iron filings on a piece of paper which is held over a magnet.<sup>27</sup> ”

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<sup>26</sup> CL Wang & PK Ahmed, ‘The informal structure: hidden energies within the organisations’, University of Wolverhampton, 2002, p. 6.

<sup>27</sup> J Strikwerda, ‘Organization design in the 21st century: from structure follows strategy to process follows proposition’, University of Amsterdam, draft 9 February 2012, p. 38.

Where and how decisions are made within organisations provides probably the clearest illustration of the use (and usefulness) of informal organisational design.<sup>28</sup> Many organisations have a formal executive group. Comprising senior executives from across the organisation, the group comes together regularly, as part of a formal practice, to discuss and develop strategies for addressing various performance and corporate matters.

However, this is not the only forum in which members of the Executive meet. It is also not the only forum in which strategies about how to deal with organisational issues are formulated and leadership decisions taken.

In most organisations, key decisions about the organisation and its activities are made by the organisation's head outside of formal committee structures and meetings. They clarify their options and formulate their position through informal conversations with people whose opinions they respect and with whom they feel comfortable having speculative and exploratory conversations. The people that the organisation's head calls upon to help formulate and clarify ideas may not necessarily be part of the organisation's executive group; indeed, they may be much further down the formal hierarchy.

So, what are the formal decision-making relationships and forums for? They ensure that any decisions, formulated in private, are interrogated, challenged and revised in light of all relevant information. In other words, they provide the point at which the informal enters a formal system of controls, checks and balances.

Acknowledging the existence of the informal design alongside the formal design is important because:

- It helps thinking about who in the organisation are critical to its effective functioning, the organisation's capacity to change, and its capacity to continue being productive in the future.

- It provides the basis for thinking and talking about the extent to which the informal information sharing and decision-making processes might be flawed.

It is important that you, as an organisational leader, keep in mind both the formal and informal aspects of how your organisation operates, the value of each, and how each relates to the other.

Formal organisational structures can be deceptive, since many organisational activities, which embody real vigour, may be undertaken beyond the framework of formal organisational structure; and people of key calibre, who control the real future of that organisation, may be well hidden underneath the organisational chart.<sup>29</sup>

28 The following commentary is influenced to a great extent by B Frisch, 'Who really makes the big decisions in your company?', *Harvard Business Review*, December 2011, pp. 104–111.

29 CL Wang & PK Ahmed, 'The informal structure: hidden energies within the organisations', University of Wolverhampton, 2002, p. 8.

## the dynamic organisation

The other aspect of the ‘real’ design is what happens to the ‘on paper’ design over time as a consequence of dynamic forces. In particular, the pull between stability (driven by the human need for security, certainty and clarity) and instability (driven by changes in the operating environment and the human need for excitement, innovation).<sup>30</sup>

In its most gentle form, organisational dynamics is a simple drift—gradual changes over time relating to how the organisation works, who does what, how they are grouped and how they relate. In a more dramatic form, the dynamism is played out as work-arounds, or the refusal to work or relate in particular ways.

However the dynamic forces play out, the ‘on paper’ designs and how the organisation operates in practice will differ sooner or later. As a leader, you need to be aware of the differences and decide whether or not the differences between aspiration and reality need to be addressed.

“ The design of an organisation is not the organisation. An organisation comes into being and existence by actions, conscious or not, deliberate or spontaneous. A design, especially the process of designing, merely serves to prepare the mind.”<sup>31</sup>



30 A Gupta, 'Insights from complexity theory: understanding organisations better', c. 2008, viewed 28 May 2013, <<http://tejas.iimb.ac.in/articles/12.php>>.

31 J Strikwerda, 'Organization design in the 21st century: from structure follows strategy to process follows proposition', University of Amsterdam, draft 9 February 2012, p. 35.




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**{ appendices }**

# a history of ideas

## a history of metaphors

Much of the thinking and writing about organisational design has been focussed on selecting the right metaphors to describe and explain fundamental characteristics of organisations. In turn, the metaphors have coloured the type of advice provided about how to design an organisation—what to look at and what to strive for—and, indeed, whether or not it is, in fact, possible to design an organisation at all.

The most prominent metaphors have been:

### **organisation as a machine (c.1910s)**<sup>32</sup>

This concept is related to the scientific management school of thought, which suggests that all parts of an organisation can be planned, controlled and finely calibrated to achieve optimum performance. Approaching organisational design from the perspective of an organisation as a giant machine involves identifying specialised work tasks, establishing highly detailed operating rules and implementing ‘top-down’ control through the establishment of a clear hierarchy or chain of command.

While the metaphor of a machine is inherently modern, many of the key elements of this approach are grounded in classical and, in particular, Enlightenment-age, thinking. For example, the idea that an organisation is a mechanism is informed by the Enlightenment concept that the world is a giant clockwork device governed by a series of predictable universal laws. The Classical idea of a separation of the mind from the body, head from the hand, is also reflected in the separation of organisational leaders (white collar workers) from the workers (blue collar workers).<sup>33</sup>

The conception of the organisation as a machine gave rise to a focus on operational efficiencies, time and motion studies, and the saying ‘time is money’. It also emphasised the separation of production, servicing and planning tasks. Performance-based pay (‘pay the work and not the job’) was another key feature of this approach, based on the idea that money drives performance. Many commentators have identified this last assumption as being the model’s fundamental flaw. They criticise the approach for assuming that employees are motivated by money and place no value on the satisfaction and dignity that can come from decision-making autonomy or social interaction.

Nevertheless, key elements of this model, such as giving primacy to production processes and using a hierarchical chain of command and control, have persisted. This suggests that they are of value for certain types of business functions and operating environments.

### **organisation as an organism (c.1960s)**<sup>34</sup>

In stark contrast to the idea of an organisation as a machine is the concept of an organisation as a living being. Organic organisations have a high degree of decentralisation, a ‘flatter’ structure (fewer levels of management between the front line and the organisational head), and a high degree of collaborative decision making.

In the most extreme version of an organisation as an organism, there are no job descriptions or leaders. Communication is established through a central hub. Decisions are made collectively by teams and take into account the needs and interests of employees. (This idea gave rise to the still popular belief that leadership can and should occur at all levels). While potentially a flexible and responsive model, critics point out that, in practice, a fully organic organisation is unlikely to be productive unless individual employee interests align with the collective interests. It also requires individuals who are willing and able to operate without ego.

Nevertheless, key elements of this model have persisted—in particular, the idea that people, not processes, drive an organisation and that an organisation will change over time as a consequence.

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32 See, for example, FW Taylor, *Scientific management*, Harper and Row, New York, 1911.

33 E McMillan, ‘Considering organisational structure and design from a complexity paradigm perspective’, in G Frizzelle & H Richards (eds), *Tackling industrial complexity: the ideas that make a difference*, University of Cambridge, 2002, p. 4.

34 See, for example, T Burns & GM Stalker, *The management of innovation*, Tavistock, London, 1961.

### organisation as an information processor (c.1970s)

The rise of computers gave another machine-based metaphor for people thinking and writing about organisational design. However, in this case, rather than using the metaphor to describe how the organisation worked, the metaphor of a computer was used to describe what most modern organisations do; they deal with information.

Central to the idea of the organisation as an information processor was a focus on the relationships within the organisation and how these worked.<sup>35</sup> In this model, knowledge or intellectual capital is the primary focus, and how this is produced through working relationships is the primary concern for design decisions.<sup>36</sup> In this model, relationships are complex and formed around both providing direction and control (governance) as well as sharing and creating information and knowledge. Matrix management, whereby an organisation has two authority structures (a vertical governance hierarchy and a horizontal system of collaboration, contributions and co-production), was a key legacy of this concept.

An organisation built upon many different types of relationships going in different 'directions' can potentially take pressure off senior leaders having to act as a single point of authority and knowledge. However, the model can make it more difficult to direct, see and control activity within an organisation. Lines of influence and responsiveness can be obscured. Responsibility and accountability can become confusing.

Nevertheless, the idea that currency of the modern organisation is information persists, as does the idea that organisational design needs to take account of how information moves into and around an organisation.

The ultimate expression of the organisation as an information processor was the idea that emerged in the 1990s of the organisation as a horizontal and potentially infinite network (much like the world wide web). In this conception, an 'organisation' barely exists. Rather, there is a network of interconnecting parts, comprising smaller, cross-functional business units and inter-organisational partnerships and alliances, which forge new connections and configurations all the time.<sup>37</sup> Terms for these sorts of organisations are network organisations (1988), imaginary organisations (1992), democratic organisations (1994), centreless corporations (1998), knowledge-based organisations (1999), and/or virtual organisations (1999). Central to each of these forms is the informal structure.<sup>38</sup>

### organisation as a network (1980s)

A network organisation is one in which all functions that can be done better by others are contracted out. This then establishes an organisation that has a core (whose sole job and primary expertise is as a strategist, organiser, purchaser, and controller) and a number of ancillary organisations (who undertake the doing). This model provides considerable flexibility and capacity to adapt both reactively and pre-emptively to changes in the operating environment.

Criticisms of this model draw attention to the 'hollowing out' of important skills and knowledge at the centre. Critics question how contracts can be negotiated and managed well if the controlling 'hub' no longer has deep content knowledge. An organisation established on this model can also be vulnerable to events such as skill shortages as it is difficult to implement and control pre-emptive risk management approaches to protect the whole operation.

Nevertheless, the idea that an organisation can outsource some or all of the 'doing' remains attractive to organisations in certain areas of work or operating environments.

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35 See, for example, JR Galbraith, *Designing complex organisations*, Addison-Wesley, Reading, Massachusetts, 1973.

36 P Hoffman, 'The role of organizational design in 21st century organizations', c. 2005, viewed 27 May 2013, <<http://www.ezinearticles.com>>.

37 B Blumenthal & P Haspeslagh, 'Toward a definition of corporate transformation', *Sloan Management Review*, 1994, vol. 35, no. 3, pp. 101–106.

38 CL Wang & PK Ahmed, 'The informal structure: hidden energies within the organisations', University of Wolverhampton, 2002, p. 6.

### organisation as a concept (virtual organisations)

Virtual organisations are those that do not exist as a single physical entity, but as a collection of geographically dispersed individuals who are connected only through electronic forms of communication. Often the individuals will be part of several virtual organisations at the same time and can be physically located anywhere in the world. Typically, the relationship between the individuals is on the basis of contracts for specific tasks or functions, rather than as 'employees' as the term has traditionally been understood. Individuals who work on a short-term contract basis are likely to have several different jobs and employers at the same time and/or in quick succession. As such, rather than being an employee in a traditional sense, they collect a 'portfolio' of jobs, capabilities and employment experiences.<sup>39</sup>

### organisation as a complex adaptive system (1990s)<sup>40</sup>

A complex adaptive system is a model originally developed to describe and explain the dynamics of the biological phenomenon. Complex adaptive systems are 'made up of large numbers of agents who interact with each other in a non-linear way, creating higher and higher levels of complexity'. In a complex adaptive system, there are no controlling mechanisms, and any coherent behaviour in the system 'arises from cooperation and competition between the different agents themselves'. Finally, complex adaptive systems are active, rather than passive; they 'actively turn whatever happens to their own advantage'.<sup>41</sup>

📌 📌 Organisations are not solid frameworks, but are transient entities created and remoulded. Organisations are simply an identity. Working within this identity, people act as individuals or within groups, occasionally forming alliances to work things out.<sup>42</sup> 📌 📌

## the future

While some commentators are predicting that boundary-less or virtual organisations are the way of the future, these forms do not solve all the 'problems' of more traditional organisations, and they create problems of their own. New boundaries are likely to form, which have to be managed. These boundaries include the authority boundary (who is in charge of what?), the task boundary (who does what?), the political boundary (who gets what?), and the identity boundary (who are we?).<sup>43</sup>

Current thinkers have stepped back a little from the extremes of the organic and virtual models. Some contemporary researchers have argued that organisations need to combine different organisational forms (traditional and more agile ones), rather than focus on one, in order to succeed in today's climate. The issue, then, is no longer which model is best, but how to mix and match different organisational forms as a way to build a healthy organisation.<sup>44</sup>

39 Charles Handy coined the term portfolio worker to describe people whose employment comprises a number of projects from different employers at the same time. See C Handy, *Understanding organisations*, Oxford University Press, New York, 1976.

40 R Stacey, *Complexity and creativity in organizations*, Berrett-Koehler, San Francisco, 1996.

41 E McMillan, 'Considering organisational structure and design from a complexity paradigm perspective', in G Frizzelle & H Richards (eds), *Tackling industrial complexity: the ideas that make a difference*, University of Cambridge, 2002, pp. 123–136.

42 Paraphrased from CL Wang & PK Ahmed, 'The informal structure: hidden energies within the organisations', University of Wolverhampton, 2002, p. 9.

43 WA Band, 'Touchstones: ten new ideas revolutionizing business', 1994, reproduced in J Ivancevich & MT Matteson, *Organizational behaviour and management*, (6th edn), McGraw-Hill, 2002.

44 F Graetz, 'New forms of organising: changing structures, processes and boundaries in a public sector institution', in S Parkinson & J Shutt (eds), *BAM 2003: conference proceedings British Academy of Management annual conference*, Niche Publications, Norwich, England, 2003, pp. 1–16.



## organisational design in the public sector

In the 1990s, the ‘new public management’ approach saw individual public sector organisations, and the public sector as a whole, adopt organisational design concepts and business practices from the private sector. This involved public sector organisations moving away from the traditional model of public administration. This was the stereotypical bureaucracy—highly centralised decision making, command and control structures, and a high degree of role specialisation. The shift has allowed public sector organisations to learn from, and follow trends apparent in, private sector organisational design.

New public management involved fundamental changes to design features of public sector organisations, including devolving and decentralising authority, distinguishing between policy, service delivery and regulatory functions, and separating the roles of owner, purchaser and provider (akin to the private sector network organisational models employed by large corporations).<sup>45</sup>

Some commentators have observed that both traditional bureaucracy and new public management forms of organisational design do not reflect how individual members of the community want to interact with the public sector. That is, these models do not allow a single point of contact that offers a whole-of-person service. They also argue that a focus on individual public sector organisations as if they were independent private sector corporations overshadows the more important focus on whole-of-government systems and service value chains.<sup>46</sup>

Other theorists have argued that having government organisations whose primary focus is on outsourcing and contract management is an inadequate approach to so-called ‘wicked problems’.

Wicked problems are large, complex social issues. They are characterised by being ill-formulated, coloured by confusing information, involving many stakeholders with conflicting values, and having ramifications the extent of which is not clear. To be solved, wicked problems characteristically require the reconciliation of competing stakeholder interests. The process to achieve this is typically iterative, participatory and messy. This necessitates adaptive and adaptable relationships, processes and decision making. This way of working and interacting is something that neither the traditional bureaucratic governance approach (characterised by specialised ‘silos’) nor the new public management approach (characterised by market mechanisms) can do well,<sup>47</sup> but for which a complex adaptive systems model may be more appropriate.

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45 State Services Authority, *The state of the public sector in Victoria 2009–10*, State Government of Victoria, Melbourne, 2011, p. 24.

46 See for example, M Shanahan, A Bailey & J Puckett, ‘Demystifying organizational design in the public sector’, *bcg perspectives*, Boston Consulting Group, 2011.

47 S Beach, ‘Sustainability of network governance: stakeholder influence’, in KA Brown, M Mandell, CW Furneaux & S Beach (eds), *Proceedings contemporary issues in public management: the twelfth annual conference of the International Research Society for Public Management*, Brisbane, Australia, 2008, p. 5.

# the main concepts

Presented below is a very succinct summary of the key ideas including a brief description designed simply to prompt further investigation rather than provide complete instruction. It should be noted that some theories contradict others and that the presentation of a theory here is not intended to suggest that it is right or 'best practice'.

## factors that influence organisational design

### environmental factor theory<sup>48</sup>

This theory suggests that the design of an organisation will be shaped by factors in the external environment. The theories that explain the link between an organisation's design and the external environment include:

- **natural selection theory:** Poorly designed organisations will not thrive; well-designed organisations will thrive, and these successful models will be copied by other organisations.
- **resource dependency theory:** An organisation's form will be responsive to either the availability of the resources it needs to succeed or the power distributions of its stakeholders.
- **contingency theory:** An organisation's design will reflect the dominant characteristics of the environment in which it operates and with which it interacts. A stable environment will lead to a mechanistic organisation; a changing environment will lead to an organic organisation.
- **institutional theory:** An organisation's design reflects what society considers to be an acceptable form given the organisation's particular function and role.<sup>49</sup>

### structure follows strategy<sup>50</sup>

This was the first time the concepts of structure and strategy were connected. The key idea is that an organisation's structure is the product of a number of leadership decisions about action and allocation of resources. All organisational forms are the product of ongoing modification in light of new demands.

Critics suggest that the relationship is not so simple—that structure and strategy may be equal or that structure may be influenced by the whims of fashion or stakeholder expectations. Others have argued that strategy leads to the delimitation of core business processes and, in turn, the processes, dictate the structure.<sup>51</sup>

48 T Burns & GM Stalker, *The management of innovation*, Tavistock, London, 1961.

49 'Organisational issues in strategy,' viewed 23 August 2012, <<http://www.mgmtguru.com/mgt499/TN7.htm>>.

50 A Chandler, *Strategy and structure: chapters in the history of the industrial empire*, MIT Press, Massachusetts, 1962.

51 T Hernaus, 'Process-based organization design model: theoretical review and model conceptualization', *Third international workshop on organization design*, 18–20 May 2008, Aarhus, Denmark, p. 5.

## components of an organisation's design

### five star model<sup>52</sup>

This model outlines five factors that need to be aligned for a productive organisation:

1. strategy
2. structure (including specialisations, shapes, distribution of power and departmentalisation)
3. processes
4. reward systems
5. people policies.

The five star model provides a useful basis for organisational diagnosis; if any of the five elements are deficient or the relationships between them are broken, there will be problems.

Associated with the theory is a hierarchy of activities undertaken to create an organisation's design: develop strategy; design structure; establish key processes; set up key roles and responsibilities and assign people to these; establish informational systems; set up performance measures and rewards; provide training and development; and identify career paths.

A potential flaw with the model and approach is that it assumes organisational design starts with a blank page (unencumbered by the legacies of past activities and mistakes) and assumes perfect knowledge.

### six configurations<sup>53</sup>

The six basic components of an organisation are senior leaders (the 'strategic apex'); middle management (the 'middle line'); front line staff (the 'operating core'); techno-structure (specialists that design systems and train the front line staff, e.g. IT and HR); support staff (who provide service to the organisation but are not part of the operating workflow, e.g. administrative assistants); and ideology (the organisation's culture, values, traditions and beliefs)—added after the original theory.

Six mechanisms coordinate (and control) work across an organisation: informal communication; direct supervision; standardisation of work processes (procedures, processes and rules); standardisation of outputs (performance targets); standardisation of capabilities (for example professionalisation of people who undertake the same work tasks—professionalisation codifies the way in work is undertaken and the skills and knowledge required to perform the job); and standardisation of norms (values and beliefs—added after the original theory).

The combination of the different components and coordination mechanisms creates six legitimate configurations for organisations in the real world:

1. the simple structure
2. the machine organisation
3. the professional organisation
4. the diversified organisation
5. the innovative organisation
6. the missionary organisation (added after the original theory).

52 JR Galbraith, *Designing complex organisations*, Addison-Wesley, Reading, Massachusetts, 1973.

53 H Mintzberg, 'Organization design: fashion or fit?', *Harvard Business Review*, January–February, 1981, pp. 103–116. See also H Mintzberg, *The structuring of organisations: a synthesis of the research*, Prentice-Hall, Englewood Cliffs, 1979.

**six boxes**<sup>54</sup>

Six areas within an organisation that must work well and be aligned with each other:

1. purpose
2. structure
3. rewards
4. helpful mechanisms
5. relationships
6. leadership.

Each element is considered—reviewed, refined and aligned—with reference to the external environment in which the organisation operates and which impacts on it.

**seven 'S' model**<sup>55</sup>

There are seven aspects of an organisation that, when aligned with each other, ensure organisational effectiveness:

1. strategy
2. structure
3. systems
4. staff
5. style
6. skill
7. shared values.

This model provides a useful basis for organisational diagnosis; if any of the 's's are deficient or the relationships between the 's's is broken, there will be problems.

Critics doubt whether this is all that is required for organisations to succeed as some companies exhibiting all 's's have not survived difficult economic times.

**four basic forms**<sup>56</sup>

There are four basic forms of organising. These are not mutually exclusive and can be found to exist simultaneously within the same organisation. They are:

1. **sets (or silos):** Individual parts of the organisation have a direct relationship with a particular client group, and work almost exclusively with that group. In this formation, the role of the manager is to allocate organisational resources.
2. **chain:** Individual parts of the organisation are connected with each other in a linear sequence on the basis of providing or receiving work from other parts of the organisation as part of a production process. In this formation, the role of the manager is to control the production process.
3. **hub:** Individual parts of the organisation all contribute to or gain benefit from a central point, typically a simple project, knowledge repository or senior manager. Interaction with the hub can occur simultaneously, rather than sequentially, by the different parts. In this formation, the role of the manager is to coordinate the coming together.
4. **web:** Similar to a hub, but here the individual parts of the organisation connect with each other, rather than to a central point. In this formation, the role of the manager is to energise.

## approaches to coordination and control

### hierarchical governance

'Hierarchical', 'bureaucratic', 'chain of command' or 'command and control' are terms that describe a highly formal, vertical and typically centralised system. In a hierarchical environment, decisions are made centrally (by a designated leader) and conveyed (and followed) down the line without variation.

Each person in the organisation takes direction from one other person (their immediate manager); this makes it easier to determine accountabilities for particular actions or outcomes.<sup>57</sup> However, it can take a long time for decisions to be made.

### market governance

In this situation, a series of controls—typically in the form of check points, watchdogs, activity restrictions and contingencies triggered by predetermined events—are built into the organisation and its activities through mechanisms such as codes of conduct, process documents and contracts.

Market governance provides individuals within the organisation with a greater degree of freedom and discretion, potentially allowing for greater organisational speed and individual job satisfaction. It can also be more cost effective.

However, the system relies upon everybody in the organisation following the established processes, opening their activities to the scrutiny of others and proactively performing their 'watchdog' roles.

### network governance

This describes a mode of social organisation that is self-organising. It is characterised by the lack of a fixed or formal hierarchy, consensus decision making, and it uses game-like rules (whereby actions of individuals and the group as a whole are constantly evolving and adapting in response to the action of others).<sup>58</sup>

Network governance can facilitate strong outcomes because stakeholders are more involved; however, the chances that no decisions are reached is high. It also allows for the most articulate and outgoing to dominate.

### centralisation and decentralisation

The Boston Consulting Group has identified four models of decentralisation. The models are created by considering the placement of three types of decision-making rights: political rights (the formulation and implementation of policy); fiscal rights (the generation and control of financial resources); and administrative rights (the management and operation of services).

The four models are:

1. **full centralisation:** Political (policy), fiscal and administrative decisions are mostly made by the 'centre'.
2. **fiscal control:** Political (policy) and fiscal decision making is undertaken by the centre, with administrative decisions decentralised (that is, undertaken by individual delivery units).
3. **political oversight:** Political (policy) decision making is undertaken by the centre, with fiscal and administrative decision making decentralised (that is, undertaken by individual delivery units).
4. **full decentralisation:** Political (policy), fiscal and administrative decisions are mostly made away from the 'centre' (that is, by individual delivery units).

57 L McGrath, *Chain of command principle*, 2010, viewed 14 June 2012, <<http://american-business.org/136-chain-of-command-principle.html>>.

58 S Beach, 'Sustainability of network governance: stakeholder influence', in KA Brown, M Mandell, CW Furneaux & S Beach (eds), *Proceedings contemporary issues in public management: the twelfth annual conference of the International Research Society for Public Management*, Brisbane, Australia, 2008.

## common structures

<b>functional structure</b>	The organisation is divided and teams and divisions are created on the basis of the type of activities undertaken within the organisation.
<b>product or program structure</b>	The organisation is divided and teams and divisions are created on the basis of the products, programs or services the organisation delivers.
<b>stakeholder or market structure</b>	The organisation is divided and teams and divisions are created on the basis of the segments of the community that the organisation serves.
<b>geographic structure</b>	The organisation is divided and teams and divisions are created on the basis of the locations where the organisation delivers its products, programs or services.
<b>matrix structure</b>	<p>The organisation is divided and teams and divisions are created on the basis of two 'dimensions'. One dimension is function (such as legal advice) and the other could be a product or program, or a client group (such as people with a disability), or a geographic region (such as Gippsland).</p> <p>In a matrix organisation, staff often report to two managers: one relating to the functional activities (for example the director of legal services for the whole organisation), the other relating to the other dimension (for example, the director of a regional office).</p>
<b>hybrid</b>	The organisation is divided and teams and divisions are created on the basis of different distinguishing features. This means that, within the single organisation, some teams and divisions are created on the basis of function, while others are created on the basis of product, client group, or geography.
<b>fluid or project structure</b>	<p>People who work for the organisation are configured and reconfigured into different working groups as the work demands. The working groups are created and dispersed in response to the requirements of the work. The organisational structure will look different from month to month, if not week to week.</p> <p>A variation on this is to have preformed teams ready to fit together in any number of temporary configurations required by the work.</p>

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## **the *leading public organisations series***

The *leading public organisations series* is a set of resources produced by the State Services Authority (SSA). They offer prompts, thought starters, practical ideas, and reminders for leaders and managers working in Victorian Public Sector organisations. They focus on:

- **making considered decisions about organisational design.** Organisational design is the art of dividing an organisation into operational parts and then connecting those parts together to optimise organisational performance. It involves considerations about what work needs to be done, how the work is supported, how roles are defined, and the governance arrangements that establish direction, control, co-production and accountability.
- **using the organisation's culture as a component of productivity.** Organisational culture is the collective values, beliefs, customs and behaviours of the majority of people who work for a particular organisation. A 'functional culture' is one in which there is alignment between the values held by the individuals who work for the organisation and between the values required to achieve organisational performance.
- **facilitating change within an organisation.** Organisational change is the process of moving from old structures, ways of working, values or ways of thinking to adopt new structures, ways of working, values or ways of thinking. Change management is the act of directing and controlling this process in a systematic way.

The advice and ideas presented in each guide draw upon research in the relevant field, insights from Victorian Public Sector leaders, and insights gained through organisational reviews and consultation work that the SSA has conducted at the request of the Premier, various ministers or organisational heads.

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