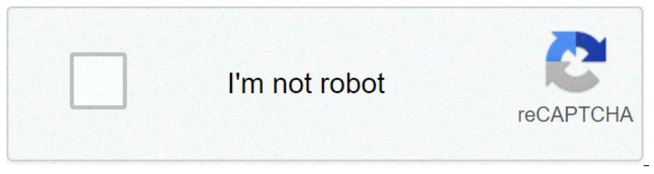

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Today's businesses are increasingly complex and diverse. In this article, a well-known organization theorist describes new principles of organization design now in use and their applications to today's businesses and institutions. It is his position that not only must the new principles make it possible for organizations to function and perform, but they must also serve the higher goals of human endeavor. Organization structures are becoming increasingly short-lived and unstable. The "classical" organization structures of the 1920s and 1930s, which still serve as textbook examples, stood for decades without needing more than an occasional touching up. American Telephone & Telegraph, General Motors, DuPont, Unilever, and Sears, Roebuck maintained their organizational concepts, structures, and basic components through several management generations and major changes in the size and scope of the business. Today, however, a company no sooner finishes a major job of reorganizing itself than it starts all over again. General Electric, for instance, finished a tremendous organization overhaul around 1960, after almost a decade of hard work; since then it has revamped both its structure and its overall strategies at least twice. Similarly, Imperial Chemicals in Great Britain is restructuring an organization design that is barely 10 years old. And the same restlessness and instability afflict organization structures and concepts in the large U.S. commercial banks, in IBM, and in U.S. government agencies. For instance, the Health, Education and Welfare Department has been subjected to a "final" reorganization almost every year in its 20-year history. To some extent this instability is a result of gross overorganizing. Companies are resorting to reorganization as a kind of miracle drug in lieu of diagnosing their ailments. Every business observer can see dozens of cases where substantial, even massive organization surgery is being misapplied to take care of a fairly minor procedural problem, or—even more often—to avoid facing up to personnel decisions. Equally common is the misuse of reorganization as a substitute for hard thinking on objectives, strategies, and priorities. Few managers seem to recognize that the right organization structure is not performance itself, but rather a prerequisite of performance. The wrong structure is indeed a guarantee of nonperformance; it produces friction and frustration, puts the spotlight on the wrong issues, and makes mountains out of trivia. But "perfect organization" is like "perfect health": the test is the ills it does not have and therefore does not have to cure. Even if unnecessary organization surgery were not as rampant in our institutions as unnecessary appendectomies, hysterectomies, and tonsillectomies are said to be in our hospitals, there would still be an organization crisis. Twenty years ago many managers had yet to learn that organization design and organization structure deserve attention, thinking, and hard work. Almost everyone accepts this today; indeed, organization studies have been one of the true "growth industries" of the past twenty years. But while a few years ago organization theory had "the answers," today all is confusion. The crisis is simultaneously a crisis of organization theory and of organization practice. Ironically, what is happening is not at all what organization theorists like Chris Argyris, Warren Bennis, Douglas McGregor (and I myself) have been predicting for at least 10 years: pressures for a more free-form and humanistic organization that provides greater scope for personal fulfillment play almost no part in the present organization crisis. Instead the main causes of instability are changes in the objective task, in the kind of business and institution to be organized. This is at the root of the crisis of organization practice. The organization theorists' traditional answer to "organization crisis"—more organization development—is largely irrelevant to this new problem. Sometimes they seem to be pushing old remedies to cure a disease that no one has heard of before, and that inhabits a totally unfamiliar type of body. The kind of business and institution to be organized today is an enormously different beast from that of 20 years ago. These changes in the objective task have generated new design principles that do not fit traditional organization concepts. And therein lies the crisis of theory. On the other hand, the past 20 years have also seen the emergence of new understandings of which organization needs require the most attention, and of how to go about the job of analyzing organization needs and designing organization structures. Only when we have an idea of what the new "body" looks like can we begin to treat its ills. In what follows I compare old models with new realities and describe the new design principles. These principles can be matched to the tasks of modern management as well as to the formal needs of all organizations, independent of their purpose. In exploring these relationships, we can discern a way to avoid the organization crisis that affects so many businesses and institutions. The Early Models Twice in the short history of management we have had the "final answer" to organization problems. The first time was around 1910 when Henri Fayol, the French industrialist, thought through what were, to him, the universally valid functions of a manufacturing company. (I am using the word "function" in the common, management sense, not in the way Fayol used it to describe administrative concerns.) Of course, at that time the manufacturing business presented the one truly important organization problem. Then in the early 1920s Alfred P. Sloan, Jr., in organizing General Motors, took the next step. He found "the answer" for organizing a large, multidivisional manufacturing company. The Sloan approach built the individual divisions on the functional structure that Fayol had specified for a manufacturing business, that is, on engineering, manufacturing, selling, and so on; but it organized the business itself by the concept of federal decentralization, that is, on the basis of decentralized authority and centralized control. By the mid-1940s GM's structure had become the model for larger organizations around the world. Where they fit the realities that confront organization designers and implementers today, the Fayol and Sloan models are still unsurpassed. Fayol's functional organization is still the best way to structure a small business, especially a small manufacturing business. Sloan's federal decentralization is still the best structure for the big, single-product, single-market company like GM. But more and more of the institutional reality that has to be structured and organized does not "fit." Indeed the very assumptions that underlay Sloan's work—and that of Fayol—are not applicable to today's organization challenges. GM Model vs. Present Realities There are at least six ways in which the GM structure no longer serves as a model for present organization needs. 1. General Motors is a manufacturing business. Today we face the challenge of organizing the large nonmanufacturing institution. There are not only the large financial businesses and the large retailers, but also, equally, there are worldwide transportation, communications, and customer service companies. The latter, while they may manufacture a product, have their greatest emphasis on outside services (as most computer businesses do). Then there are, of course, all the nonbusiness service institutions, e.g., hospitals, universities, and government agencies. These "nonmanufacturing" institutions are, increasingly, the true center of gravity of any developed economy. They employ the most people, and they both contribute to and take the largest share of the gross national product. They present the fundamental organization problems today. 2. General Motors is essentially a single-product, single-technology, single-market business. Even accounting for the revenues of its large financial and insurance subsidiaries, four fifths of its total revenue are still produced by the automobile. Although Frigidaire and Electromotive are large, important businesses and leaders in the consumer appliance and locomotive markets, respectively, they are but minor parts of GM. Indeed, GM is unique among large companies in being far less diversified today than it was 30 or 40 years ago. Then, in the late 1930s and early 1940s, General Motors had major investments in the chemical industry (Ethyl), in the aircraft industry (North American Aviation), and in earth-moving equipment (Euclid). All three are gone now and have not been replaced by new diversification activities outside the automotive field. The cars that General Motors produces differ in details, such as size, horsepower, and price, but they are essentially one and the same product. A man who came up the line in, say, the Pontiac Division, will hardly find Chevrolet totally alien—and even Opel in Germany will not hold a great many surprises for him. By contrast, the typical businesses of today are multiproduct, multitechnology, and multimarket. They may not be conglomerates, but they are diversified. And their central problem is a problem General Motors did not have: the organization of complexity and diversity. There is, moreover, an even more difficult situation to which the GM pattern cannot be applied: the large single-product, single-technology business that, unlike GM, cannot be subdivided into distinct and yet comparable parts. Typical are the "materials" businesses such as steel and aluminum companies. Here belong, also, the larger transportation businesses, such as railroads, airlines, and the large commercial banks. These businesses are too big for a functional structure; it ceases to be a skeleton and becomes a straitjacket. They are also incapable of being genuinely decentralized; no one part on its own is a genuine "business." Yet as we are shifting from mechanical to process technologies, and from making goods to producing knowledge and services, these large, complex, but integrated businesses are becoming more important than the multidivisional businesses of the 1920s and 1930s. 3. General Motors still sees its international operations as organizationally separate and outside. For 50 years it has been manufacturing and selling overseas, and something like one quarter of its sales are now outside North America. But in its organization structure, in its reporting relationships, and above all in its career ladders, GM is a U.S. company with foreign subsidiaries. Rather than leaning toward an international, let alone a multinational operation, GM's top management is primarily concerned with the U.S. market, the U.S. economy, the U.S. labor movement, the U.S. government, and so on. This traditional structure and viewpoint of GM's top management may, in large part, explain the substantial failure of GM to take advantage of the rapid expansion and growth of such major non-U.S. automobile markets as Europe, where GM's share has actually been dropping, or Brazil, where GM failed to anticipate a rapidly emerging automobile market.1 In contrast, during the last 20 years many other companies have become multinational. For these companies, a great many cultures, countries, markets, and governments are of equal, or at least of major, importance. 4. Because GM is a one-product, one-country company, information handling is not a major organization problem and thus not a major concern. At GM everyone speaks the same language, whether by that we mean the language of the automotive industry or American English. Everyone fully understands what the other one is doing or should be doing, if only because, in all likelihood, he has done a similar job himself. GM can, therefore, be organized according to the logic of the marketplace, and the logic of authority and decision. It need not, in its organization, concern itself a great deal with the logic and flow of information. By contrast, multiproduct, multitechnology, and multinational companies have to design their organization structure to handle a large flow of information. At the very least they have to make sure that their organization structure does not violate the logic of information. And for this task, GM offers no guidance—GM did not have to tackle the problem. 5. Four out of every five GM employees are either manual production workers or clerks on routine tasks. In other words, GM employs yesterday's rather than today's labor force. But the basic organization problem today concerns knowledge work and knowledge workers. They are the fastest growing element in every business; in service institutions, they are the core employees. 6. Finally, General Motors has been a "managerial" rather than an "entrepreneurial" business. The strength of the Sloan approach lay in its ability to manage, and manage superbly, what was already there and known. Today's organizer is challenged by an increasing demand to organize entrepreneurship and innovation. But for this undertaking, the General Motors model offers no guidance. New Design Principles We do not know how to handle these new organization realities or how to satisfy their structural demands. Nevertheless, the organizing task has not waited. To tackle the new realities, we have in the past 20 years improvised ad hoc design solutions to supplement the Fayol and Sloan models. As a result, the organization architect now has available five so-called design principles, i.e., five distinct organization structures. The two traditional ones already mentioned have been known as principles of organization design for many years: Henri Fayol's functional structure. Alfred P. Sloan's federal decentralization. Three are new; indeed they are so new that they are not generally known, let alone recognized, as design principles: Simulated decentralization. In team organization, a group—usually a fairly small one—is set up for a specific task rather than for a specific skill or stage in the work process. In the past 20 years we have learned that whereas team design was traditionally considered applicable only to short-lived, transitory, exceptional task-force assignments, it is equally applicable to some permanent needs, especially to the top-management and innovating tasks. In an organization that is both too big to remain functionally organized and too integrated to be genuinely decentralized, simulated decentralization is often the organization answer. It sets up one function, one stage in the process, or one segment as if it were a distinct business with genuine profit and loss responsibility; it treats accounting fictions, transfer prices, and overhead allocations as if they were realities of the marketplace. For all its difficulties and frictions, simulated decentralization is probably the fastest growing organization design around these days. It is the only one that fits, albeit poorly, the materials, computer, chemical, and pharmaceutical companies, as well as the big banks; it is also the only design principle suited for the large university, hospital, or government agency. Finally, in systems structure, team organization and simulated decentralization are combined. The prototype for this design principle was NASA's space program, in which a large number of autonomous units—large government bodies, individual research scientists, profit-seeking businesses, and large universities—worked together, organized and informed by the needs of the situation rather than by logic, and held together by a common goal and a joint top management. The large transnational company, which is a mix of many cultures, governments, businesses, and markets, is the present embodiment of an organization based on the systems concept. None of the new design principles is easy or trouble-free. Compared to the traditional designs of functionalism and federal decentralization, they are indeed so difficult, complex, and vulnerable that many organization theorists maintain that they are not principles at all, but abominations.2 And there is no question that wherever the traditional principles can be used, they should be; they are infinitely easier. The traditional principles are, however, far more limited in their scope than the new ones, and when misapplied they can cause even greater problems. Design Logics Each of the five design principles expresses or embodies a logic that makes that principle the appropriate one to apply when one or another task of management requires a structure. In this discussion we can identify three, or maybe four, logics upon which the five principles are based. For instance, although they do it differently, the functional and team design principles both embody work and task and are thus appropriate designs to consider when faced with work- or task-oriented management problems. Historically these two design principles have been viewed as antithetical, but actually they are complementary. In the functionally organized structure, the work skills—manufacturing, accounting, and so on—are designed to be static; the work moves from one stage to others. In team structure, the work is conceived as static, with skills moving to meet the requirements of the task. Because of their complementary nature, these two design principles are the only possible choices for dealing with, say, the structure of knowledge. For if you need a specific task performed and a team effort would do it best, then you need static functions as bases from which persons, and their expertise, can be moved to form a team. Two other design logics, corresponding to those involving work and task, can also be defined. Simulated decentralization and Sloan's federal decentralization both deal with results and performance. They are result-focused designs. Unlike functional and team structures, however, they are not complementary; they are not even alternatives. Federal decentralization is an "optimum," simulated decentralization a "lesser evil" to be resorted to only when the stringent requirements of federal decentralization cannot be met. The last of the available design principles, systems design, is focused on relationships, another dimension of management. Because relations are inevitably both more numerous and less clearly definable than either work and task or results, a structure focused on relations will present greater difficulties than either a work-focused or a result-focused design. There are, however, organization problems, as in the true multinational business, in which the very complexity of relationships makes systems design the only appropriate design principle. This rough classification indicates that at least one additional design principle might yet be developed. Decision is as much a dimension of management as are work and task, results and performance, and relations. Yet, so far, we know of no decision-focused design principle of organization structure, but should one ever be developed, it might have wide applicability.3 Ideally, an organization should be multiaxial, that is, structured around work and task, and results and performance, and relationships, and decisions. It would function as if it were a biological organism, like the human body with its skeleton and muscles, a number of nervous systems, and with circulatory, digestive, immunological, and respiratory systems, all autonomous yet interdependent. But in social structures we are still limited to designs that express only one primary dimension. So, in designing organizations, we have to choose among different structures, each stressing a different dimension and each, therefore, with distinct costs, specific and fairly stringent requirements, and real limitations. There is no risk-free organization structure. And a design that is the best solution for one task may be only one of a number of equally poor alternatives for another task, and just plain wrong for yet a third kind of work. Major Tasks of Management A somewhat different way of viewing the relationships between the design logics and principles is to identify the principal tasks of management that the principles can structure. We have learned that, in a very general analysis, organization design should simultaneously structure and integrate three different kinds of work: (1) the operating task, which is responsible for producing the results of today's business; (2) the innovative task, which creates the company's tomorrow; and (3) the top-management task, which directs, gives vision, and sets the course for the business of both today and tomorrow. No one organization design is adequate to all three kinds of work; every business will need to use several design principles side-by-side. In addition, each organization structure has certain formal specifications that have nothing to do with the purpose of the structure but are integral parts of the structure itself. Just as a human body can be described as having certain characteristics, regardless of the occupation of its inhabitant, so can an organization structure. Bodies have arms and legs, hands and feet, all related to each other; similarly, organizations are structured to satisfy the need for: Clarity, as opposed to simplicity. (The Gothic cathedral is not a simple design, but your position inside it is clear; you know where to stand and where to go. A modern office building is exceedingly simple in design, but it is very easy to get lost in one; it is not clear.) Economy of effort to maintain control and minimize friction. Direction of vision toward the product rather than the process, the result rather than the effort. Understanding by each individual of his own task as well as that of the organization as a whole. Decision making that focuses on the right issues, is action-oriented, and is carried out at the lowest possible level of management. Stability, as opposed to rigidity, to survive turmoil, and adaptability to learn from it. Perpetuation and self-renewal, which require that an organization be able to produce tomorow's leaders from within, helping each person develop continuously; the structure must also be open to new ideas. Even though every institution, and especially every business, is structured in some way around all the dimensions of management, no one design principle is adequate to all their demands and needs. Nor does any one of the five available design principles adequately satisfy all of the formal specifications. The functional principle, for instance, has great clarity and high economy, and it makes it easy to understand one's own task. But even in the small business it tends to direct vision away from results and toward efforts, to obscure the organization's goals, and to sub-optimize decisions. It has high stability but little adaptability. It perpetuates and develops technical and functional skills, that is, middle managers, but it resists new ideas and inhibits top-management development and vision. And every one of the other four principles is similarly both a "good fit" against some formal organization specifications and a "misfit" against others. One conclusion from this discussion is that organization structures can either be pure or effective, but they are unlikely to be both. Indeed, even the purest structure we know of, Alfred Sloan's GM, was actually mixed. It was not composed just of decentralized divisions, with functional organization within the divisions. It also contained, from the beginning, some sizable simulated decentralization. For instance, Fisher Body had responsibility for all body work but not for any final product. And top management was clearly structured as a team, or rather as a number of interlocking teams. This does not mean that an organization structure must by necessity be unwieldy or a confused mixture. The tremendous vitality of some older structures—Sears, Roebuck and GM, for instance—shows that a dynamic balance can be achieved. One implication is clear, however, and that is that pure structure is likely to end up badly botched. (This tendency may explain the difficulties that both GE and Imperial Chemicals—each trying for pure decentralization—have been experiencing.) Above all, our observations lead us to conclude that organization design is a series of risk-taking decisions rather than a search for the "one best way." And by and large, organization theorists and practitioners have yet to learn this. Building the New Structure There are a number of important lessons to be learned from the previous discussion and from the experiences of the past 20 years. Some concern new ideas or conclusions we have not recognized before, while others involve rethinking old concepts and relationships that we thought were settled years ago. The first thing we can conclude is that Fayol and Sloan were right: good organization structures will not just evolve. The only things that evolve by themselves in an organization are disorder, friction, and malperformance. Nor is the right structure—or even the livable one—intuitive, any more than Greek temples or Gothic cathedrals were. Traditions may indicate where the problems and malfunctions are, but they are of little help in finding solutions. Organization design and structure require thinking, analysis, and a systematic approach. Second, we have learned that designing an organization structure is not the first step, but the last. The first step is to identify and organize the building blocks of organization, that is, the key tasks that have to be encompassed in the final structure and that, in turn, carry the structural load of the final edifice. This is, of course, what Fayol did with his functions of a manufacturing company, when he designed them according to the work to be done. We now know that building blocks are determined by the kind of contribution they make. And we know that the traditional classification of the contributions, e.g., the staff-and-line concept of conventional U.S. organization theory, is more of a hindrance to understanding than a help. Designing the building blocks or tasks is, so to speak, the "engineering phase" of organization design. It provides the basic materials. And like all materials, these building blocks have their specific characteristics. They belong in different places and fit together in different ways. We have also learned that "structure follows strategy." Organization is not mechanical. It is not done by assembly, nor can it be prefabricated. Organization is organic and unique to each individual business or institution. We realize now that structure is a means for attaining the objectives and goals of an institution. And if a structure is to be effective and sound, we must start with objectives and strategy.4 This is perhaps the most fruitful new insight we have in the field of organization. It may sound obvious, and it is. But some of the worst mistakes in organization building have been made by imposing on a living business a mechanistic model of an ideal organization. Strategy—that is, the answer to the question: "What is our business? What should it be? What will it be ?"—determines the purpose of structure. It thereby determines the key tasks or activities in a given business or service institution. Effective structure is the design that makes these key activities function and produce results. In turn the key activities are the load-bearing elements of a functioning structure. Organization design is, or should be, primarily concerned with the key activities; other purposes are secondary. Some of the new insights into organization design require us to unlearn old ideas. A few of the noisiest and most time-consuming battles in organization theory and practice are pure sham. They pose an either/or dichotomy when the correct answer is "both—in varying proportions." The first of these sham battles that had better be forgotten is between task-focus and person-focus in job design and organization structure. Structure and job design have to be task-focused. But assignments have to fit both the person and the needs of the situation. There is no point in confusing the two, as the old and tiresome discussion of the nonproblem insists on doing. Work is always objective and impersonal; the job itself is always done by a person. Somewhat connected with this old controversy is the discussion of hierarchical versus free-form organization. Traditional organization theory knows only one kind of structure, applicable alike to building blocks and whole buildings. It is the so-called scalar organization, that is, the hierarchical pyramid of superior and subordinates. Today another—equally doctrinaire—organization theory is becoming fashionable. It maintains that shape and structure are what we want them to be—they are, or should be, free form. Everything—shape, size, and apparently tasks—derive from interpersonal relations. Indeed, it is argued, the purpose of the structure is to make it possible for each person "to do his thing." It is simply not true, however, that one of these forms represents total regimentation and the other total freedom. The amount of discipline required in both is the same; they only distribute it differently. Hierarchy does not, as the critics allege, make the person at the top of the pyramid more powerful. On the contrary, the first effect of hierarchical organization is to protect the subordinate against arbitrary authority from above. A scalar or hierarchical organization does this by defining a sphere within which the subordinate has authority, a sphere within which the superior cannot interfere. It protects the subordinate by making it possible for him to say, "This is my assigned job." Protection of the subordinate also underlies the scalar principle's insistence that a man have only one superior. Otherwise, the subordinate is likely to find himself caught between conflicting demands, commands, interests, and loyalties. There is a lot of truth in the old proverb, "Better one bad master than two good ones." At the same time, the hierarchical organization gives the most individual freedom. As long as the incumbent does whatever the assigned duties of his position are, he has done his job. He has no responsibility beyond it. We hear a lot of talk these days about the individual's right to do his own thing. But the only organization structure in which this is remotely possible is a hierarchical one. It makes the least demands on the individual to subordinate himself to the goals of the organization or to gear his activities into the needs and demands of others. Teams, by contrast, demand, above all, very great self-discipline from each member. Everybody has to do the team's "thing." Everybody has to take responsibility for the work of the entire team and for its performance. The one thing one cannot do on a team is one's own "thing." Organization builders (and even organization theorists) will have to learn that sound organization structure needs both (a) a hierarchical structure of authority, and (b) a capacity to organize task forces, teams, and individuals for work on both a permanent and a temporary basis. The 'One-way' Myth Organization theory and organization practice still assume that there is "one final answer," at least for a particular business or institution. In itself, this belief is a large part of today's organization crisis. It leads to doctrinaire structures that impose one template on everybody and everything—e.g., operating and innovating components; manufacturing and service units; single-product and multimarket businesses. And if any person or process, no matter how insignificant, seems out of place, a total root-and-branch reorganization has to be done to accommodate it. Maybe there is one right answer—but if so, we do not yet have it. Indeed for certain businesses and institutions, such as a large airline or government agency, we do not even have one poor answer—all we have are a multitude of equally unsatisfactory approaches. But, as remarked before, the organizing task will not wait; it will by necessity continue to be a central preoccupation of managers. Therefore, they had better learn to understand the design principles we already have. They must also learn the formal specifications of organization, and the relationships between the tasks of a business and the structures available to it. The true lesson of the organization crisis is, however, quite different. It is that the traditional quest for the one right answer—a quest pursued as wholeheartedly by the new "heretics" of free-form organization as by the most orthodox classicists—pursues the wrong quarry. It misconceives an organization as something in itself rather than as a means to an end. But now we can see that liberation and mobilization of human energies—rather than symmetry, harmony, or consistency—are the purpose of organization. Human performance is both its goal and its test. 1. For a discussion of these developments, see the epilogue to the new edition of my Concept of the Corporation (New York, John Day, 1972). 2. This is, for instance, the verdict of organization theorist Harold Koontz, in his well-publicized article, "The Management Theory Jungle," Journal of the Academy of Management, December 1965; see also his "Making Sense of Management Theory," HBR July–August 1962, p. 24. 3. Herbert A. Simon and his school have been attempting to develop one—at least this is how I read H.A. Simon's Administrative Behavior (New York, Macmillan, 1957) and I.G. March and H.A. Simon's Organizations (New York, John Wiley & Sons, 1958). 4. The fundamental work on this topic, an in-depth study of the design of modern organization in pioneering American companies such as DuPont, General Motors, and Sears, was done by Alfred D. Chandler in his book Strategy and Structure (Cambridge, M.I.T. Press, 1962). A version of this article appeared in the January 1974 issue of Harvard Business Review.