

MNGT-C1010

ORGANIZATION DESIGN

Module 3: Coordination

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Aalto-yliopisto
Aalto-universitetet
Aalto University



MODULE 3: People and culture in organization design (JM)

Themes: People and culture in organization design. Coordination inside the organization.

Learning objectives: After the module, you are able to evaluate the role of culture and climate in organization design, and understand how workflows and task design inside the organization affect organization design. You are also able to argue for different kinds of control and coordination mechanisms and how these can be linked to overall organization design.

Mandatory readings:

Burton, R. M., Obel, B., & Håkonsson, D. D. (2021). Organizational design. Cambridge University Press. 4th edition - Chapter 6

AND

Burton, R. M., Obel, B., & Håkonsson, D. D. (2021). Organizational design. Cambridge University Press. 4th edition – Chapter 7

MODULE 3: Readings & Sessions

Tuesday 13-15 – Lecture - U356 (ALMA MEDIA)

Themes: Coordination inside the organization

Readings: Burton, R. M., Obel, B., & Håkonsson, D. D. (2021). Organizational design. Cambridge University Press. 4th edition - Chapter 6

Thursday 13-16 – Workshop - U356 (ALMA MEDIA)

Themes: People and culture in organization design.

Readings: Burton, R. M., Obel, B., & Håkonsson, D. D. (2021). Organizational design. Cambridge University Press. 4th edition – Chapter 7

Discussion on the readings

Burton, R. M., Obel, B., & Håkonsson, D. D. (2021). Organizational design. Cambridge University Press. 4th edition - Chapter 6

Discuss in pairs:

- What did you find most interesting?
- What questions arose?

Focus of the day

We aim to address the following questions:

1. What kinds of different control and coordination mechanisms are there? How do they link to overall organization design?
2. How workflows and task design inside the organization affect organization design?

— Coordination and Control



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Why Organizations Instead of Markets?

Do it yourself or buy it from the market?

Transaction-cost economics perspective (Williamson, 1979):

- If transaction cost is low, it's better to buy from market
- If transaction cost is high, better to integrate or do in-house

Recurring, strategically imperative, risky or complex activities are expensive (high transaction cost) to manage in a buyer-supplier contract (market)

Oftentimes these activities are done through employment contract (less transaction cost)

Adler's Three Control Mechanisms

Table 1 Community, Hierarchy, and Market as Three Organizing Principles

		Market
Social mechanism is:		Price competition
Control exercised over:		Outputs
Fits tasks that are:		Independent
Best supports goals of:		Flexibility
What is exchanged?		Goods and services for money or barter
Are terms of exchange specific or diffuse?		Specific
Are terms of exchange made explicit?		Explicit

Source. Adapted from Adler (2001) and Cardona et al. (2004).

Adler, P. S. (2001). Market, hierarchy, and trust: The knowledge economy and the future of capitalism. *Organization science*, 12(2), 215-234.

Classic Organization - Hierarchy

Classically, markets are pitted against centralized control (hierarchy)

Classically, employee contracts are managed through hierarchical control:

- Inherent authority – Right to give orders and they need to be obeyed
- Clear chain of command – Clear line from CEO to the lowest of workers, information cascading up or down
- Singular point of authority – A clear and singular supervisor

Adler's Three Organizing Principles

Table 1 Community, Hierarchy, and Market as Three Organizing Principles

		Hierarchy	Market
Social mechanism is:		Authority	Price competition
Control exercised over:		Process/behavior	Outputs
Fits tasks that are:		Dependent	Independent
Best supports goals of:		Control	Flexibility
What is exchanged?		Obedience to authority for material and spiritual security	Goods and services for money or barter
Are terms of exchange specific or diffuse?		Diffuse (Employment contracts typically do not specify all duties of employee, only that employee will obey orders. Other hierarchical relations imply a similar up-front commitment to obeying orders or laws, even those yet to be determined.)	Specific
Are terms of exchange made explicit?		Explicit (The employment contract is explicit in its terms and conditions even if it is not specific. Ditto for other kinds of hierarchical relation.)	Explicit

Source. Adapted from Adler (2001) and Cardona et al. (2004).

Adler, P. S. (2001). Market, hierarchy, and trust: The knowledge economy and the future of capitalism. *Organization science*, 12(2), 215-234.

Market & Hierarchy

Both market and hierarchy base their view of human nature on extrinsic incentives and motivations (money, contract, safety etc.)

Ignores “soft control” mechanisms

“Homo economicus” emphasis is strong here, ignoring e.g. “Homo ludens” and “Homo sociologicus” nature in us

Can't explain well coordination in non-hierarchical organizations or some forms of voluntary work

Community

“Soft control” mechanisms are a great way to align people for common action

“Soft control”: shared culture and norms, loyalty, motivation towards the job, commitment to clients, shared vision, fun of doing things etc.

Committed individuals need less monitoring, are more proactive, and have higher job satisfaction, job engagement, and productivity

Might also be more aligned with ideas of basic human rights

Adler conceptualizes this form of coordination and control as “Community”

Adler's Three Organizing Principles

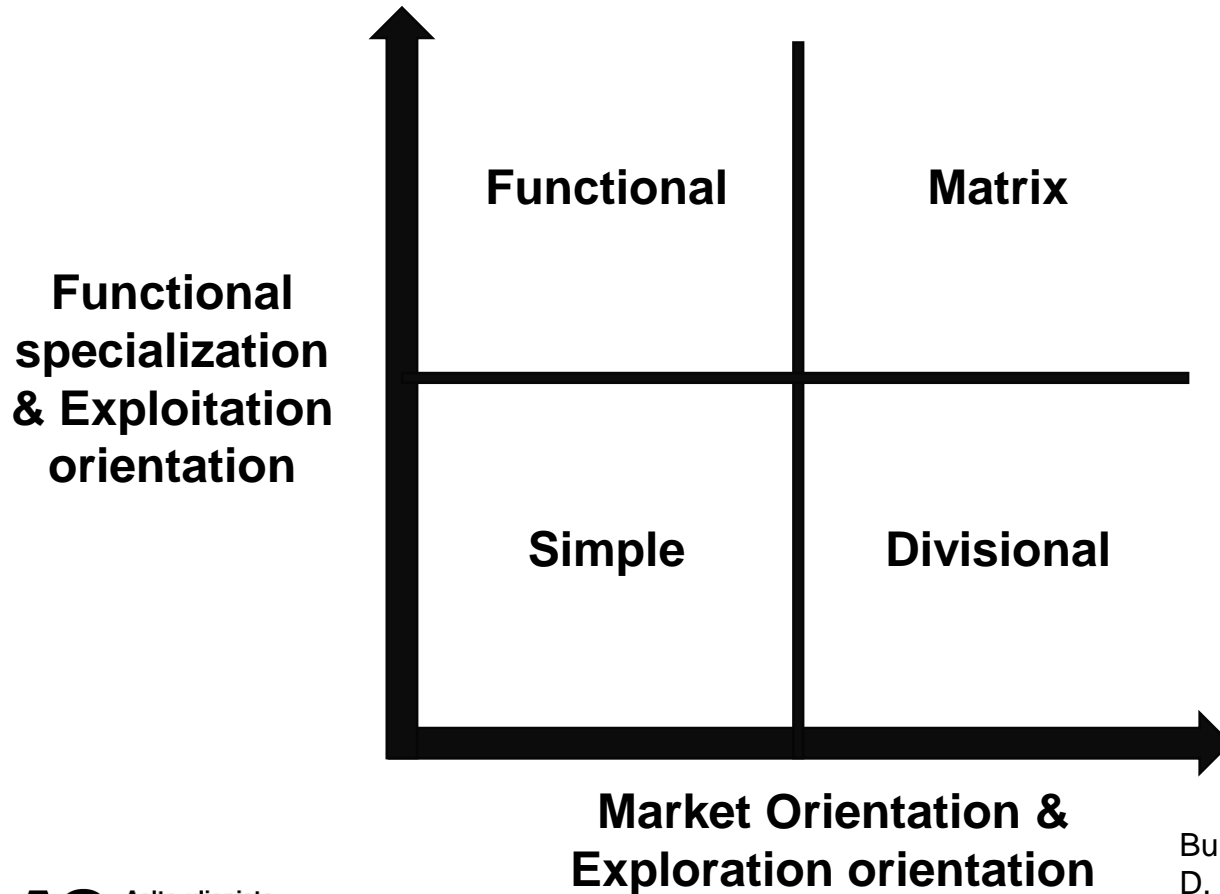
Table 1 Community, Hierarchy, and Market as Three Organizing Principles

	Community	Hierarchy	Market
Social mechanism is:	Trust	Authority	Price competition
Control exercised over:	Inputs	Process/behavior	Outputs
Fits tasks that are:	Interdependent	Dependent	Independent
Best supports goals of:	Innovation	Control	Flexibility
What is exchanged?	Favors, gifts, know-how	Obedience to authority for material and spiritual security	Goods and services for money or barter
Are terms of exchange specific or diffuse?	Diffuse (A favor I do for you today is made in exchange for a favor at a time yet to be determined. Reciprocity is generalized rather than specific.)	Diffuse (Employment contracts typically do not specify all duties of employee, only that employee will obey orders. Other hierarchical relations imply a similar up-front commitment to obeying orders or laws, even those yet to be determined.)	Specific
Are terms of exchange made explicit?	Tacit (A favor for you today is made in the tacit understanding that it will be returned someday somehow.)	Explicit (The employment contract is explicit in its terms and conditions even if it is not specific. Ditto for other kinds of hierarchical relation.)	Explicit

Source. Adapted from Adler (2001) and Cardona et al. (2004).

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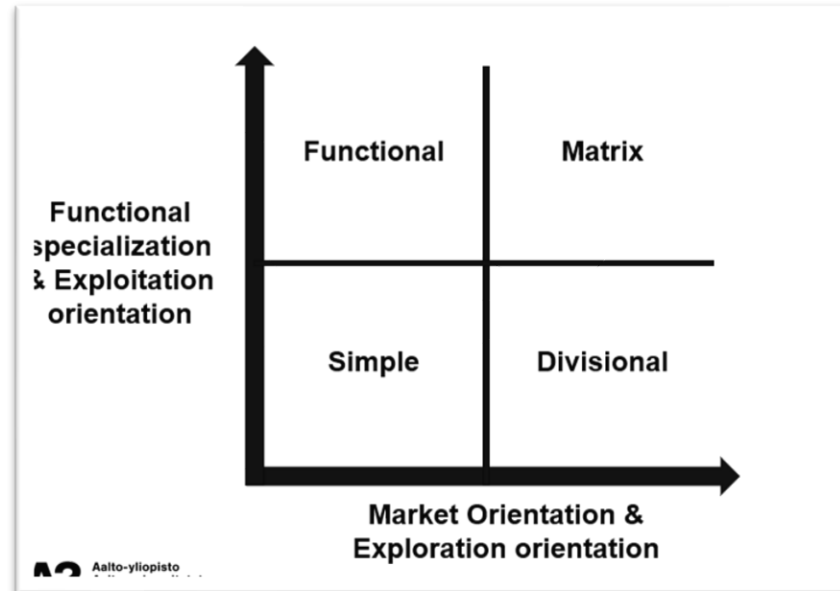
Basic Forms to Fit



Three Principles & Organization Form

Table 1 Community, Hierarchy, and Market as Three Organizing Principles

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Design Element Focus

Table 1 The three ideal organizational forms: core institutional properties

	Market	Hierarchy	Community
Locus of design	Market institutions, contracts	Authority structure	Values, rules, and protocols
Goals	Actor-specific goals	Owner's goals, efforts to achieve goal alignment among actors/organizational members	Shared goals and values
Resource ownership; property rights regime	Actors own resources (and can exchange them); private-property regime	Owner/organization owns resources; private-property regime	Shared resources in commons; common-property regime
Affiliation	Market contract	Employment	Membership

Kolbjørnsrud, V. (2018). Collaborative organizational forms: on communities, crowds, and new hybrids. *Journal of Organization Design*, 7(1), 11.

Hybrid Nature

Real-life organizations are rarely of any “pure” form, but rather a hybrid

Trend towards flat organizing and organizational adaptability can be seen as a changing focus from hierarchy to community (from authority to trust)

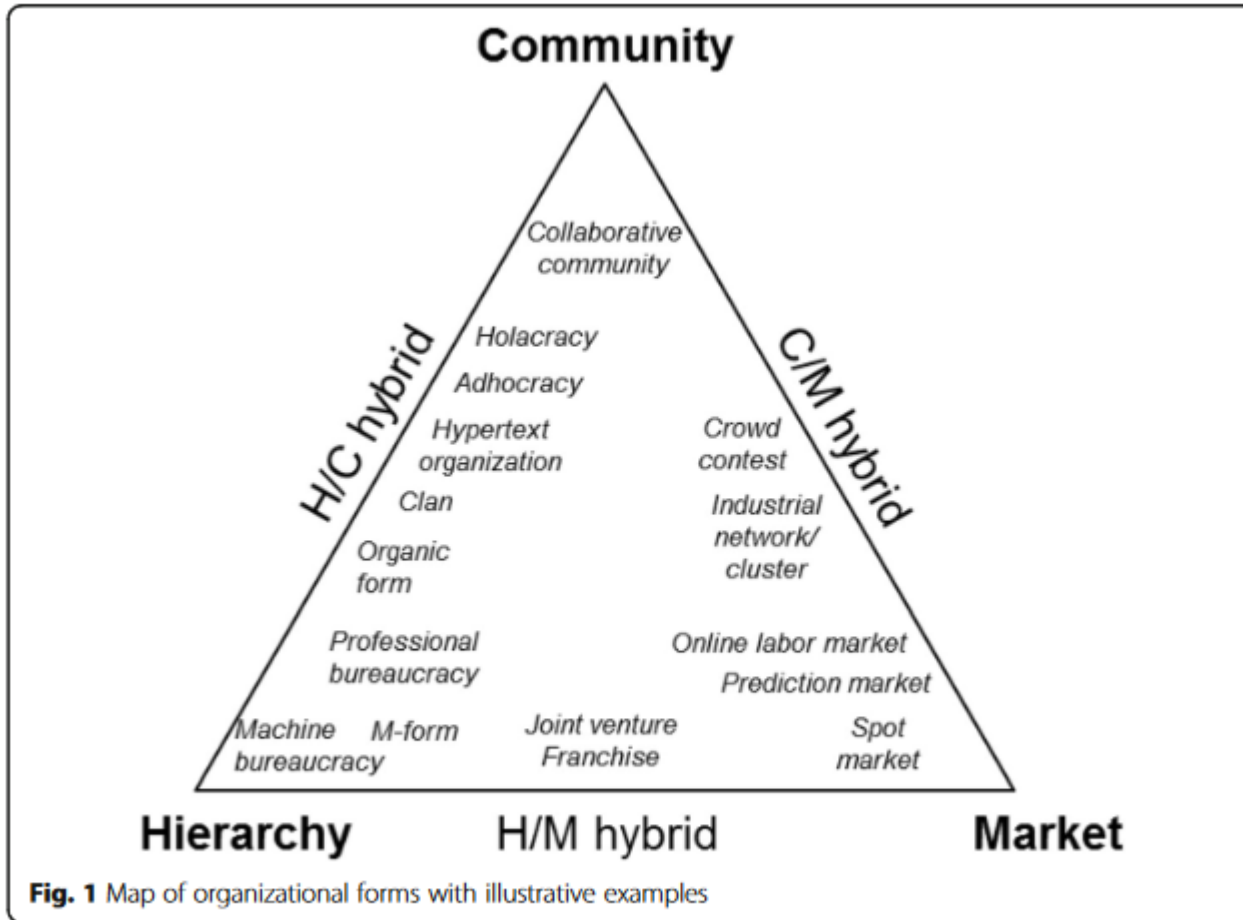
There are also organizations that have incorporated market as an integral coordination mechanism

However, market as the dominant coordination mechanism is difficult, since having only the price mechanism makes having common goals challenging (one of the core properties of organizations)

Hybrid Nature



Hybrid Nature



Kolbjørnsrud, V. (2018). Collaborative organizational forms: on communities, crowds, and new hybrids. *Journal of Organization Design*, 7(1), 11.

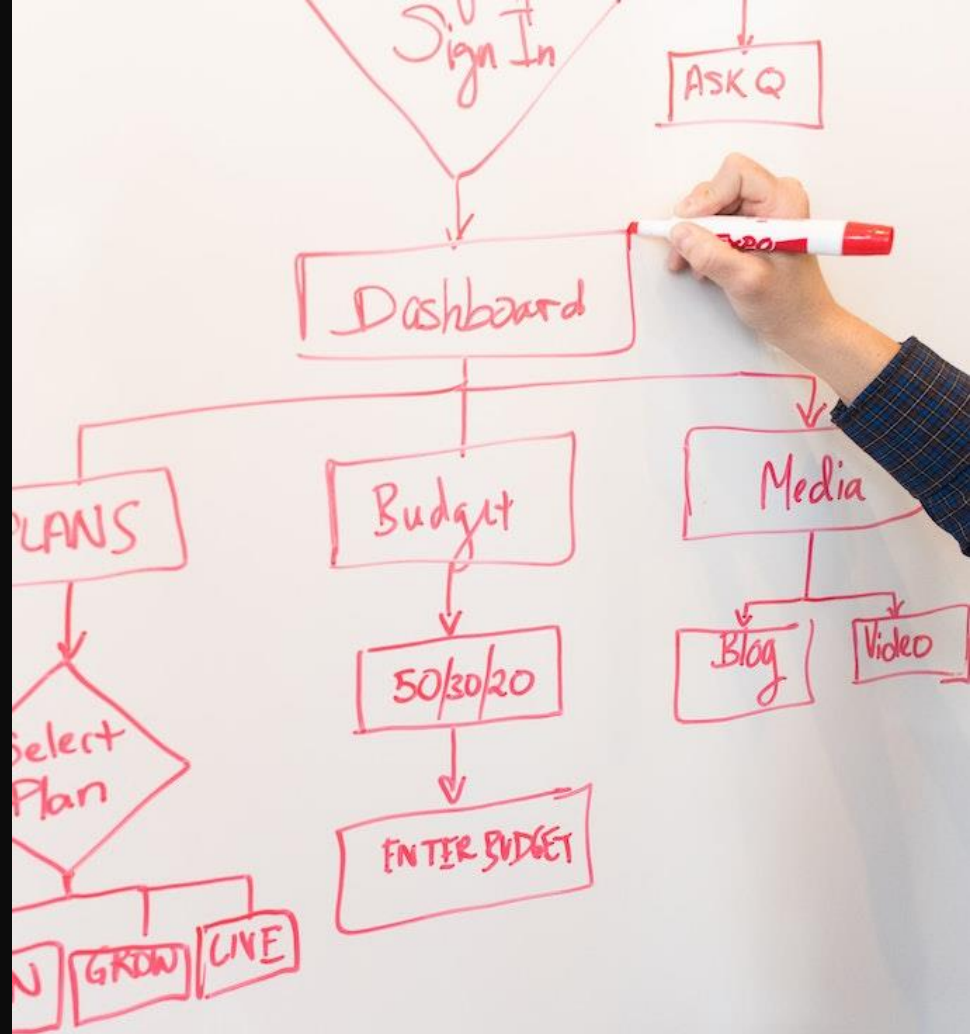
Example companies



Task Design and Workflow



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Task Design

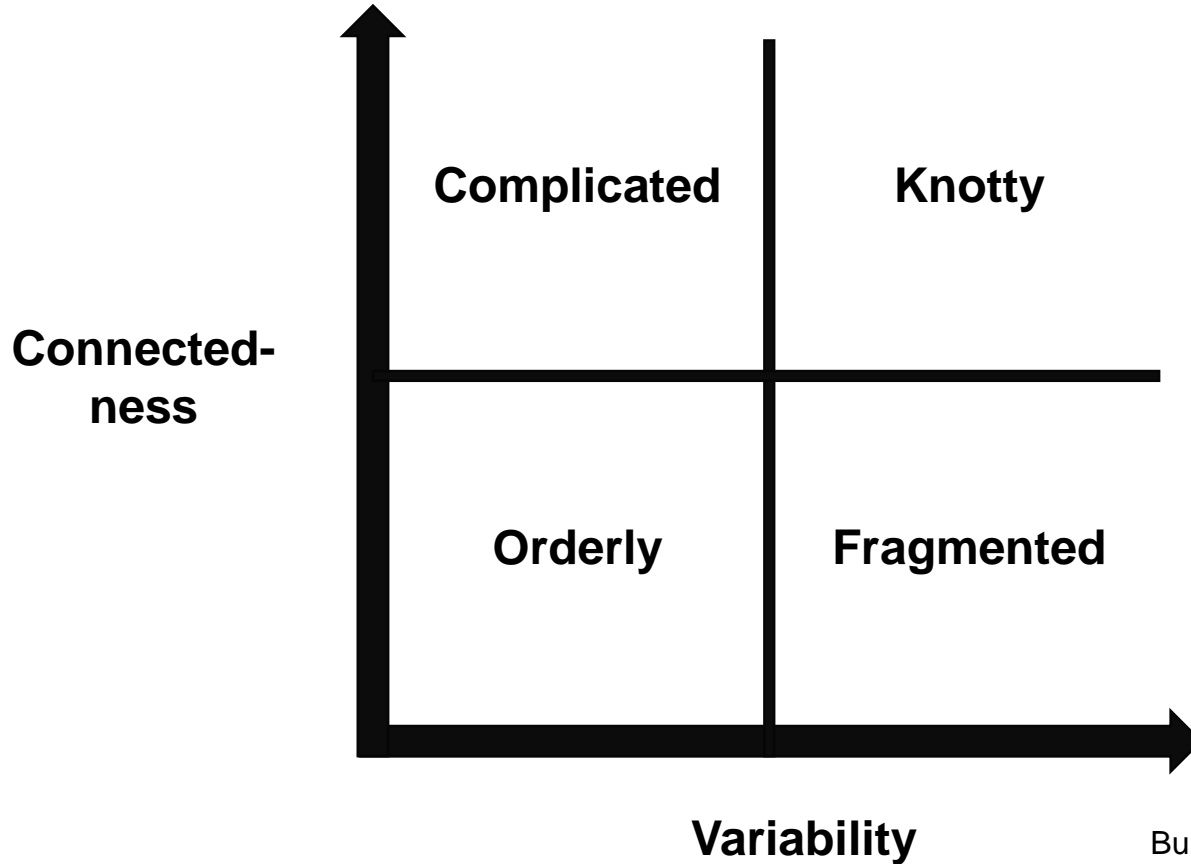
Two main dimensions:

- Variability
- Connectedness

Variability = variance of output, how tailor-made or one-off a product/service is

Connectedness = How interdependent or interconnected different phases of work are

Task Design



Pros and Cons

	Orderly	Complicated	Fragmented	Knotty
Description	(Semi-)standardized tasks that are not interconnected	(Semi-)standardized tasks that are interconnected	(Semi-)tailormade tasks that are not interconnected	(Semi-)tailormade tasks that are interconnected
Example	Standard law cases – easy inheritance cases or taxes	Standard software delivery - Standard product rollout	R&D work – New market entries or technologies	Games industry – Large AAA games
Fits	Standardized and independent knowledge and manufacturing work	Standardized knowledge work, complicated manufacturing	Tailormade knowledge work, innovation	Large and interconnected knowledge work
Pros	Problems in one task area don't affect the other High efficiency because standardization is high	Achieving complicated outputs High efficiency because standardization is high	Problems in one task area don't affect the other Adaptability to customer needs	Adaptability to customer needs Ability to deliver large wholes
Cons	Adaptability to customer needs Achieving complicated outputs	Adaptability to customer needs Problems in one task cascade to other tasks	Achieving large complicated outputs Efficiency can be low	Costly to coordinate Problems in one task cascade to other tasks

Task Design and Organization Structures

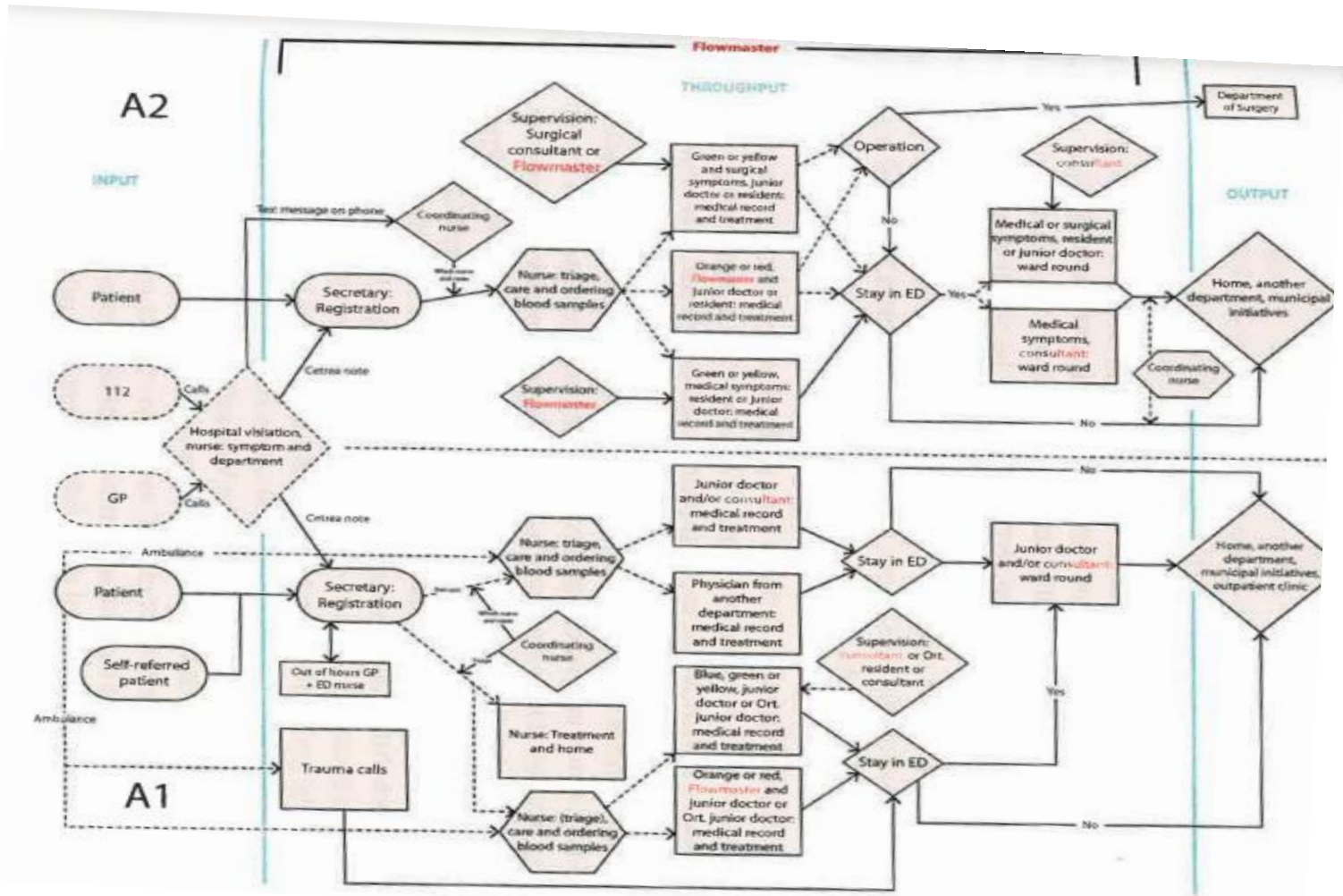
The organization structures and task design are very intertwined

- Structures can enable or hinder task completion (depending on task characteristics)
- Task design can create enablers or blockers for organizational development

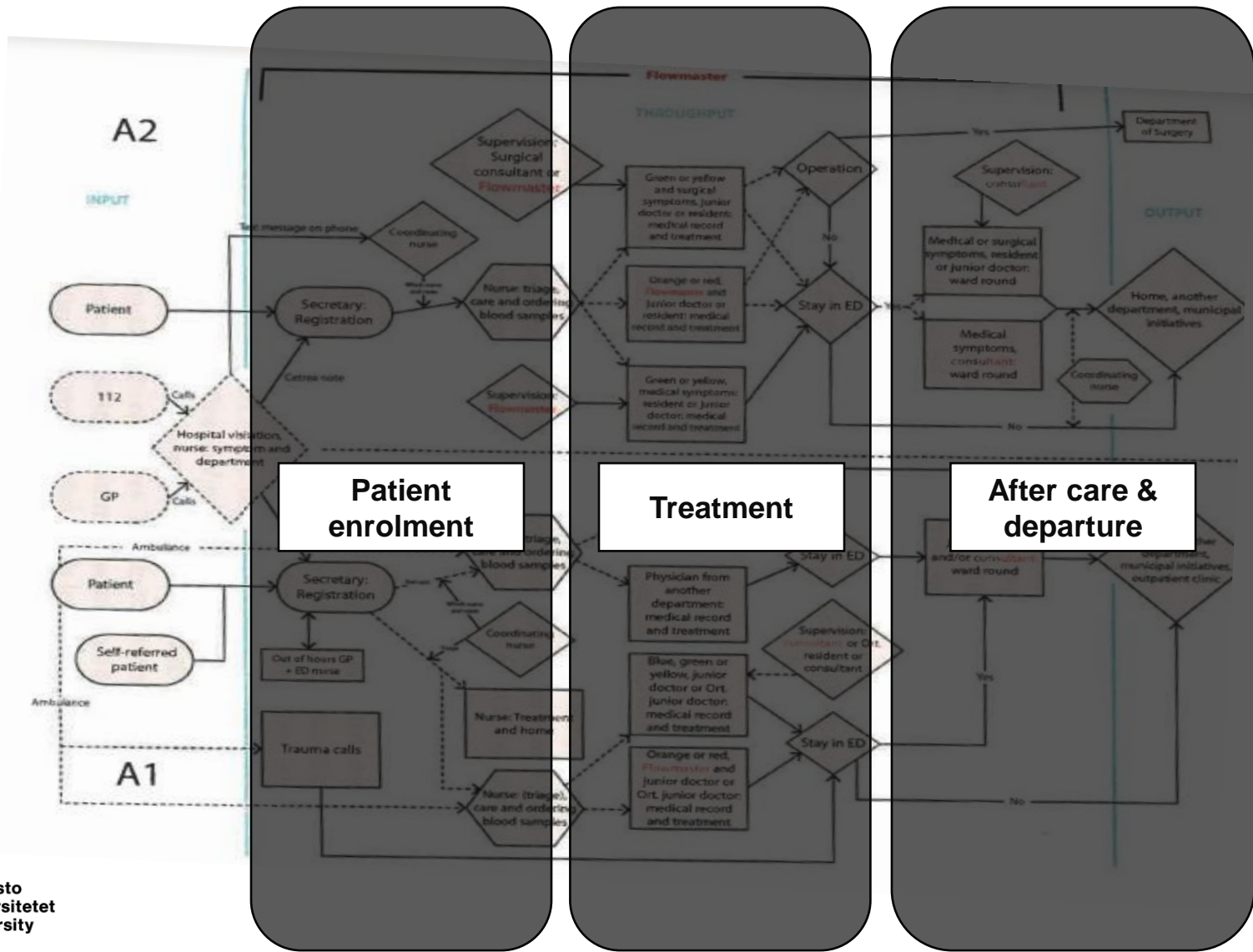
Task design can be developed, but often some aspects are fixed (e.g. because of the physical nature of a product)

Strategy, business model, and go-to-market can fix certain aspects of product/services and thus can affect task design

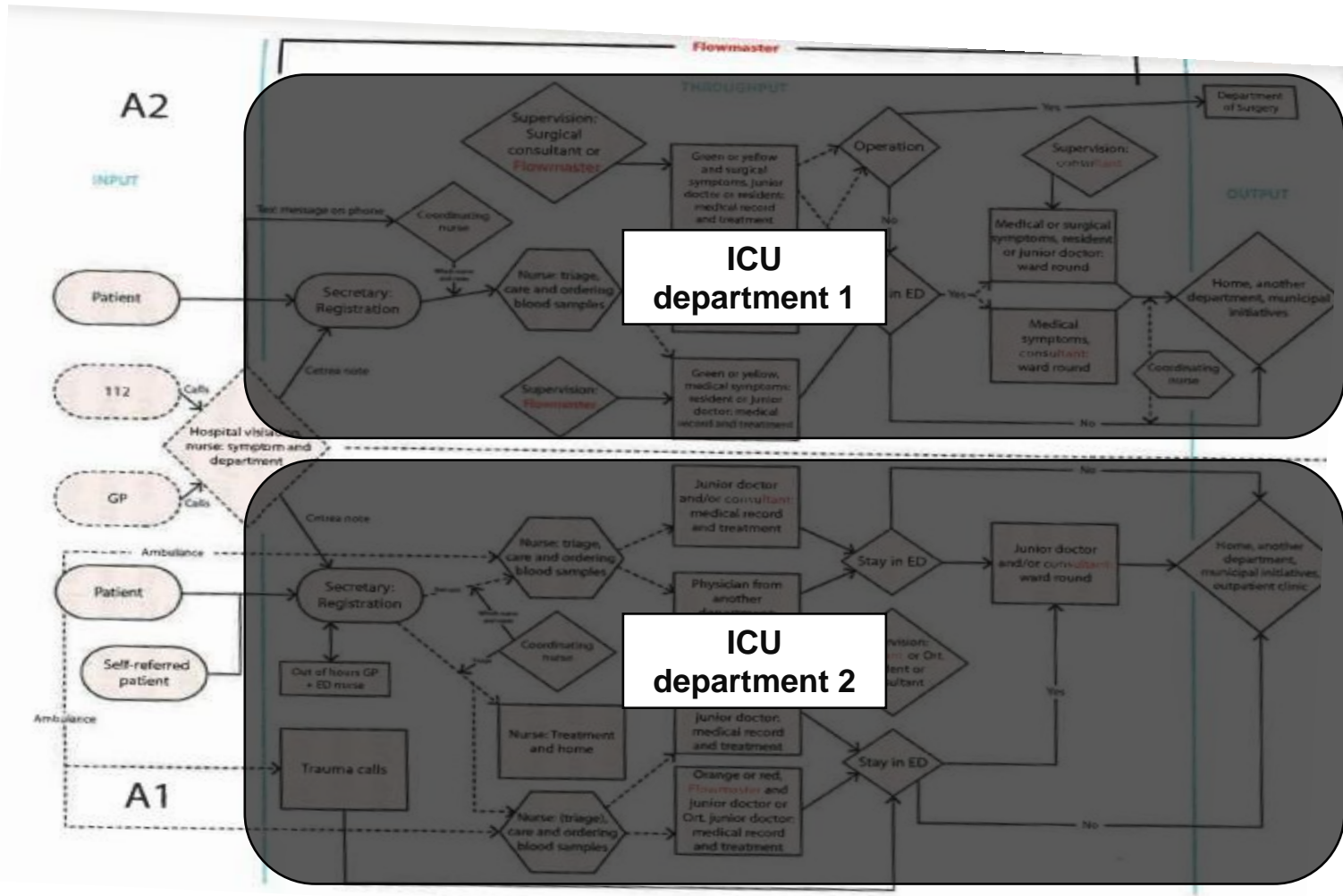
ICU



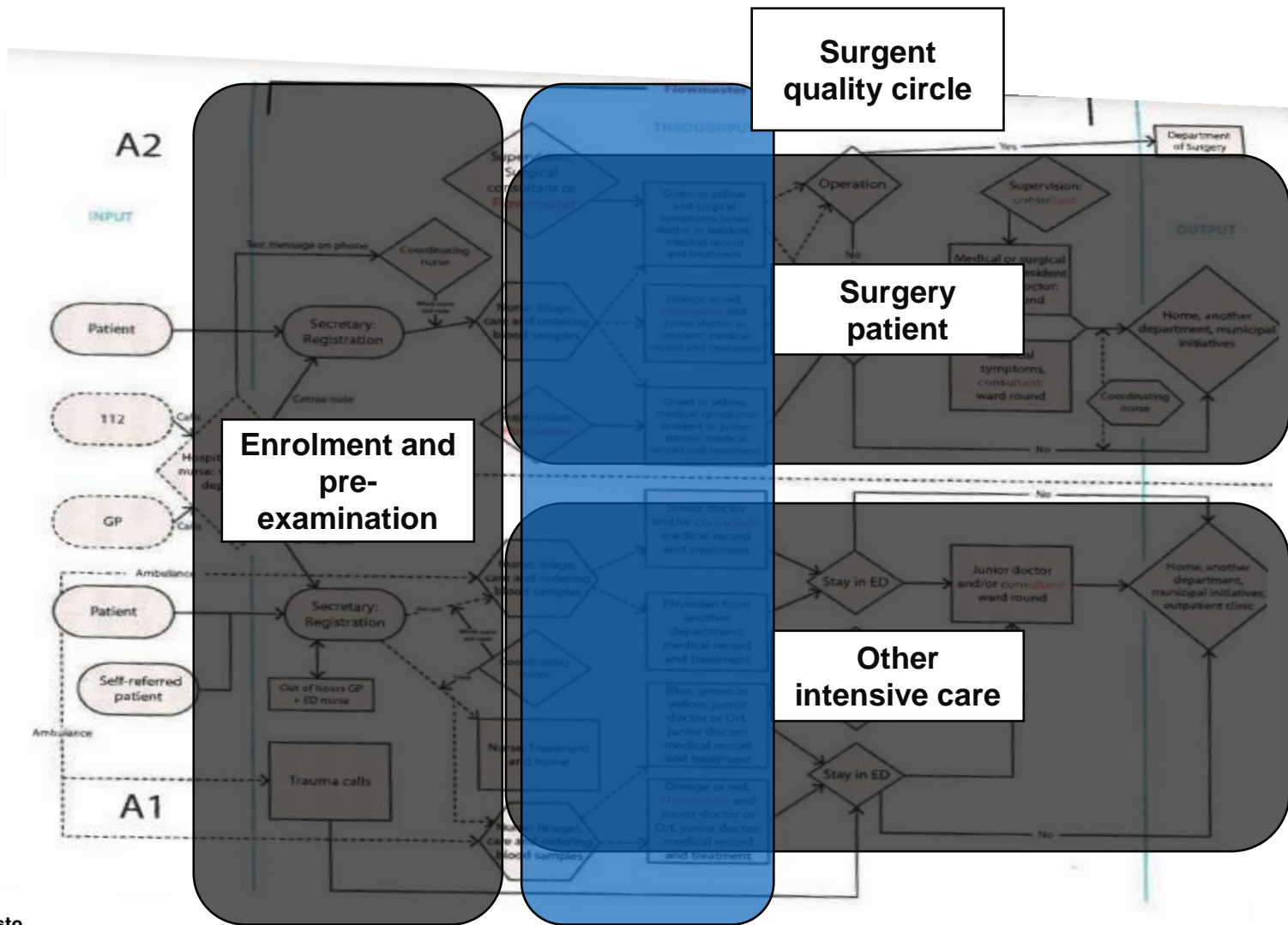
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ICU



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Task Design of New Products

The above is most relevant when we have a pre-existing product and some organization

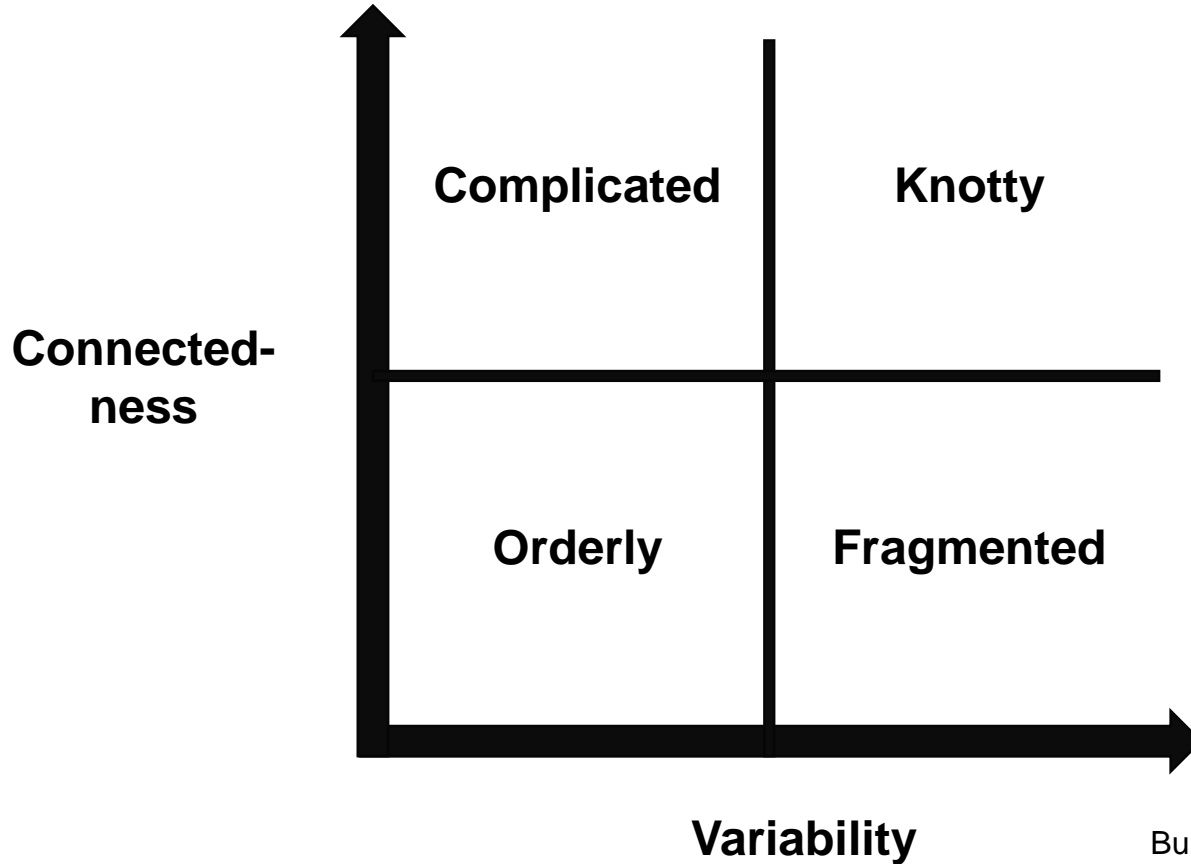
In new products, the task design evolves as the product evolves (e.g. in variability) and the way product is done evolves (e.g. in connectedness of required work)

Need to be mindful: Conway's law & Reverse Conway's law

If you have four groups working on a product, you will get a 4-piece product
(information/coordination structure -> product)

If you historically have a 4-piece product, you will have 4 teams working on them
(product -> information/coordination structure)

Task Design

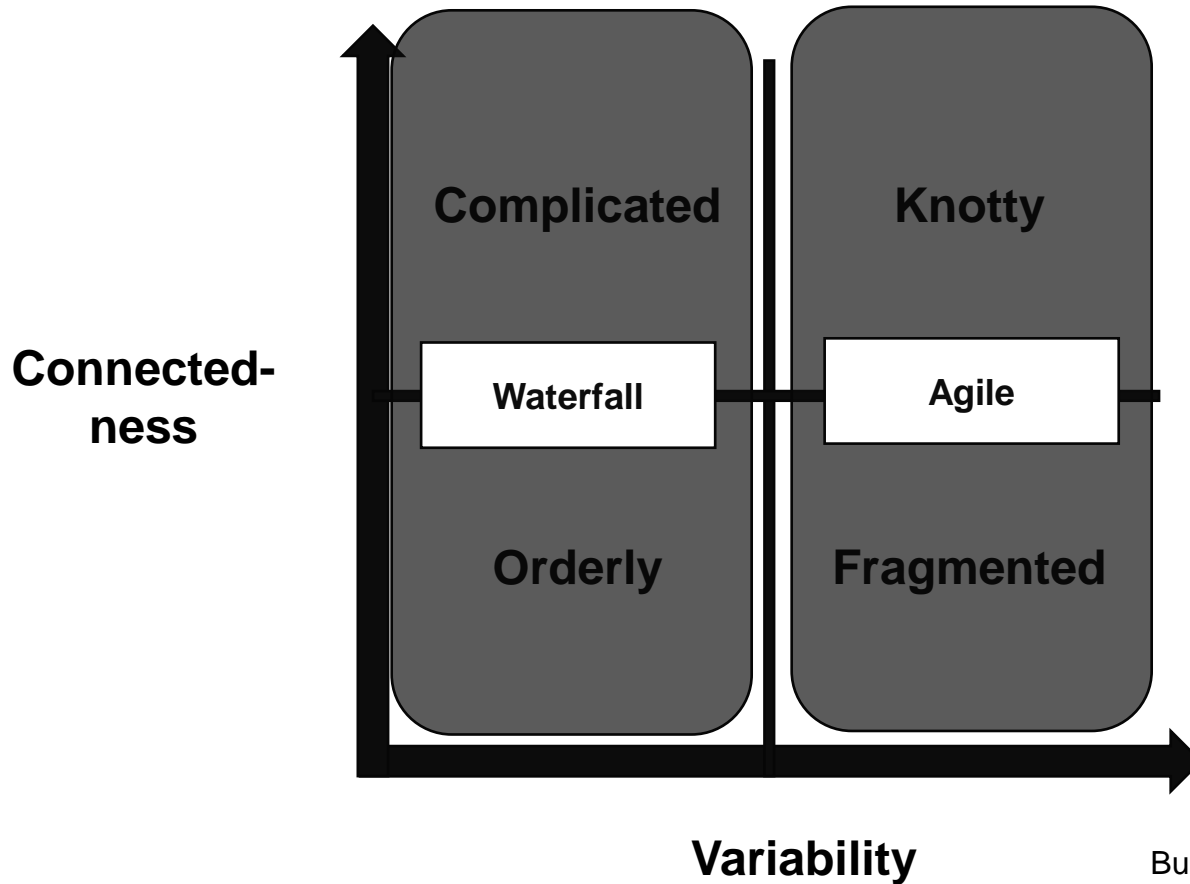


Work- flows

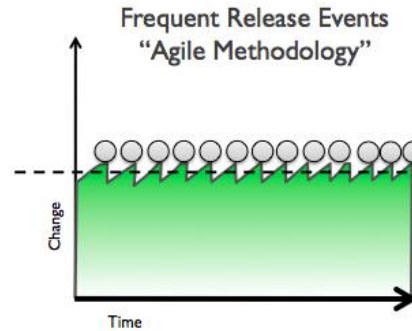
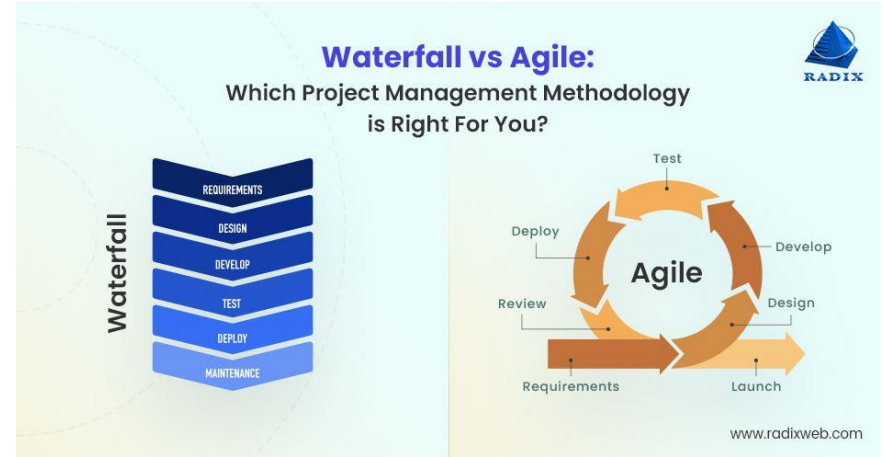
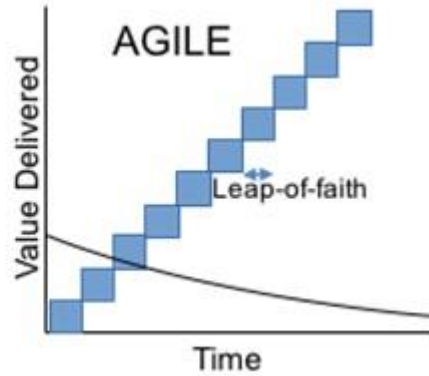
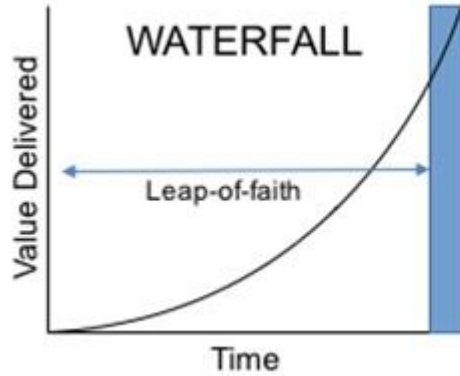
The Right Conditions for Agile

CONDITIONS	FAVORABLE	UNFAVORABLE
Market Environment	Customer preferences and solution options change frequently.	Market conditions are stable and predictable.
Customer Involvement	Close collaboration and rapid feedback are feasible. Customers know better what they want as the process progresses.	Requirements are clear at the outset and will remain stable. Customers are unavailable for constant collaboration.
Innovation Type	Problems are complex, solutions are unknown, and the scope isn't clearly defined. Product specifications may change. Creative breakthroughs and time to market are important. Cross-functional collaboration is vital.	Similar work has been done before, and innovators believe the solutions are clear. Detailed specifications and work plans can be forecast with confidence and should be adhered to. Problems can be solved sequentially in functional silos.
Modularity of Work	Incremental developments have value, and customers can use them. Work can be broken into parts and conducted in rapid, iterative cycles. Late changes are manageable.	Customers cannot start testing parts of the product until everything is complete. Late changes are expensive or impossible.
Impact of Interim Mistakes	They provide valuable learning.	They may be catastrophic.

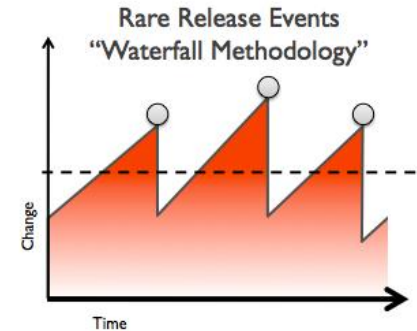
Workflows



Waterfall & Agile

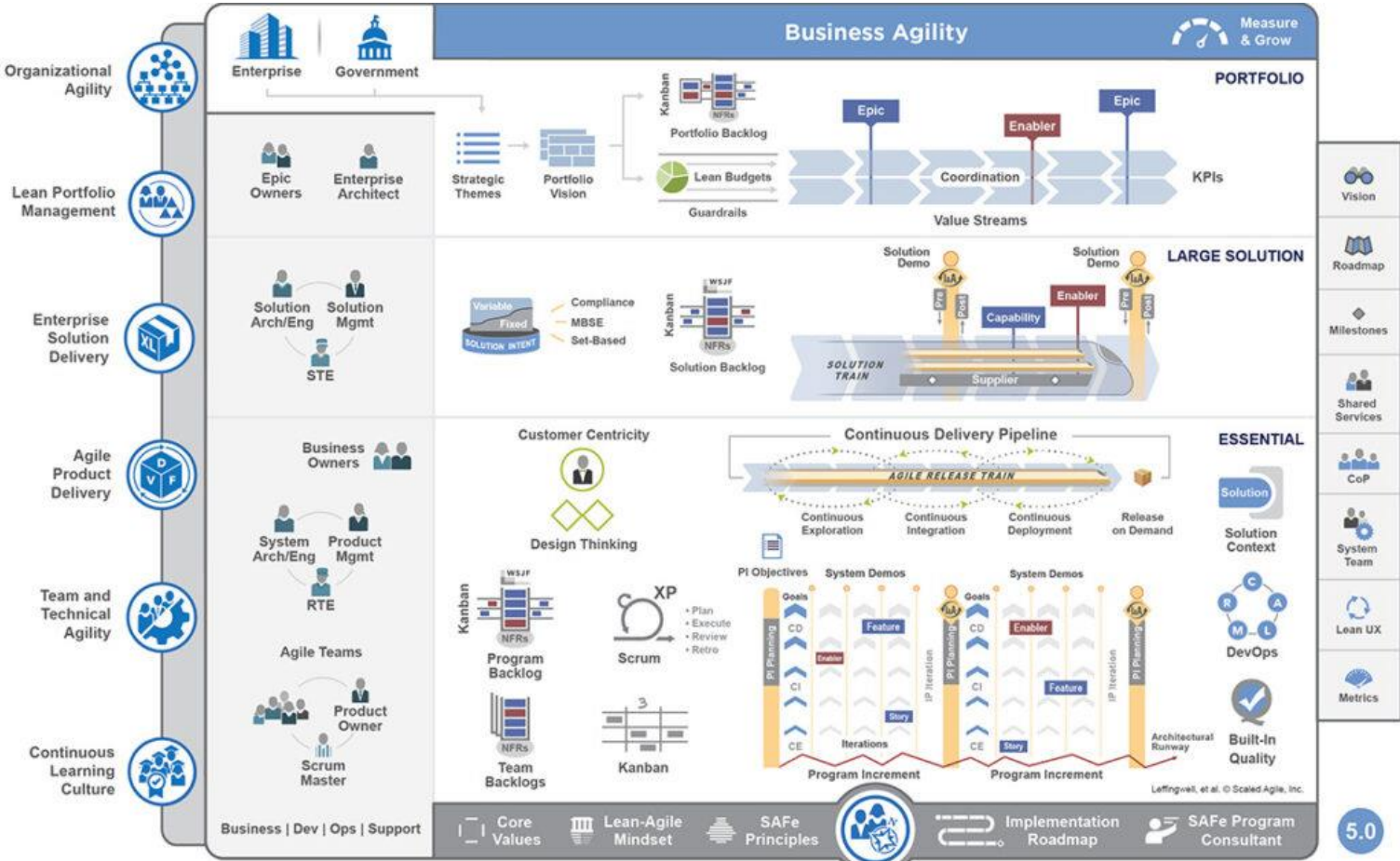


Smoother Effort
Less Risk



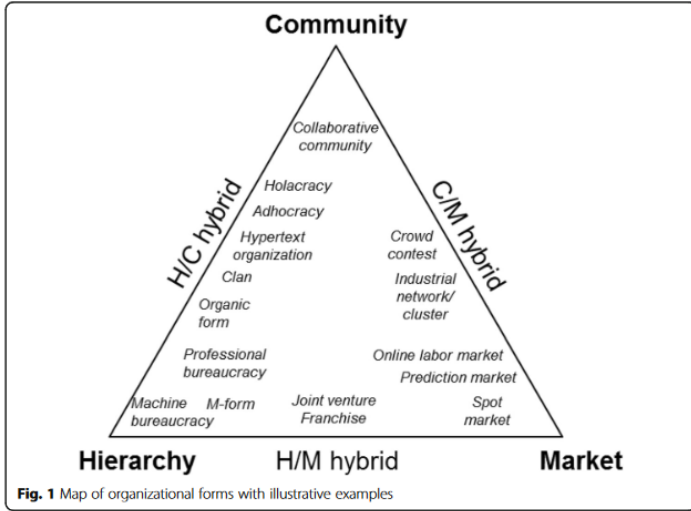
Effort Peaks
High Risk

Enterprise Agile



A?

Summary

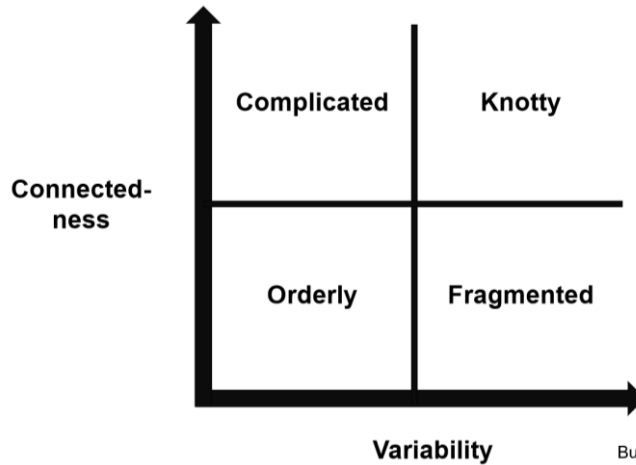


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Source: Bain & Company
From "Enabling Agile," May 2016

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References

- Adler, P. S. (2001). Market, hierarchy, and trust: The knowledge economy and the future of capitalism. *Organization science*, 12(2), 215-234.
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Thank You!



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