

MNGT-C1010

ORGANIZATION DESIGN

MODULE 2 : Strategy and organization design

Taija Turunen & Jori Mäkkeli

7.3.2023



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Aalto University



MODULE 2: Strategy and organization design (TT + Visitor: Frank Martela)

Themes: Strategy and organization design. Functional approach to organizing and organization design.

Learning objectives: After the module, you have knowledge on how purpose of the organization can be designed and you are able to see how organization design is impacted by the market environment and chosen strategy. You are also able to compare how different organization design solutions can fulfil the same functional needs.

Mandatory readings:

Fjeldstad, Ø. D., Snow, C. C., Miles, R. E., & Lettl, C. (2012). The architecture of collaboration. *Strategic management journal*, 33(6), 734-750.

Fjeldstad, Ø. D., & Snow, C. C. (2018). Business models and organization design. *Long range planning*, 51(1), 32-39.

Martela, F. (2019). What makes self-managing organizations novel? Comparing how Weberian bureaucracy, Mintzberg's adhocracy, and self-organizing solve six fundamental problems of organizing. *Journal of Organization Design*, 8(1), 1-23.

MODULE 2: Readings & Sessions

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

Themes: Strategy and organization design.

Readings: Fjeldstad, Ø. D., Snow, C. C., Miles, R. E., & Lettl, C. (2012). The architecture of collaboration. *Strategic management journal*, 33(6), 734-750.
Fjeldstad, Ø. D., & Snow, C. C. (2018). Business models and organization design. *Long range planning*, 51(1), 32-39.

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

Themes: Functional approach to organizing and organization design.

Readings: Martela, F. (2019). What makes self-managing organizations novel? Comparing how Weberian bureaucracy, Mintzberg's adhocracy, and self-organizing solve six fundamental problems of organizing. *Journal of Organization Design*, 8(1), 1-23.

Optional: <https://hbr.org/2022/06/design-your-organization-to-match-your-strategy>

Optional: Vaara, E., Harju, A., Leppälä, M., & Buffart, M. (2021). How to successfully scale a flat organization. *Harvard Business Review*.

Discussion on the readings

Fjeldstad, Ø. D., Snow, C. C., Miles, R. E., & Lettl, C. (2012). The architecture of collaboration. *Strategic management journal*, 33(6), 734-750.

Fjeldstad, Ø. D., & Snow, C. C. (2018). Business models and organization design. *Long range planning*, 51(1), 32-39.

Discuss in pairs:

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

The architecture of collaboration

Table 1. Hierarchical forms of organizing

Organizational form	Purpose	Control and coordination mechanisms
Simple hierarchy Simple structure Machine bureaucracy Professional bureaucracy	Achieve economies of scale through specialization of functions and expertise	Higher-level units control and coordinate lower-level units Planning Standardization of skills and values
Divisional	Respond to differentiated customer demand and achieve economies of scope	Division level controls and coordinates functional units Corporate level controls and coordinates cross-divisional activities and resources
Matrix	Combine responsiveness to differentiated customer demand with varied technological expertise	Multiple superiors (e.g., functional, product group, and regional/country) Cross-functional teams
Multi-firm network	Use flexible assembly of firms with specialized capabilities to achieve economies of scale and experience	Hierarchical control and coordination by the lead firm over the total network Hierarchical control and coordination within network member firms

Business models and organization design

Table 1
Relationships among value configurations and business model elements.

Value configuration	Business model						
	Value proposition	Role of customers	Value creation mechanisms			Value appropriation mechanisms	
Value Chain	Product benefits	Recipients of products and services	Activities	Inbound logistics, operations, outbound logistics, sales and marketing, post-purchase service		Revenue mechanisms	Pay for product Pay for post-purchase service
			Resources	Brand, product, and process technology		Protection mechanisms	Patents, Embodying technology in products or processes
			Economics	Cost economies of scale, value from differentiation			
Value Shop	Promised solution quality	Co-producing clients	Activities	Problem-finding and acquisition, problem-solving, choice, implementation, evaluation		Revenue mechanisms	Pay for resource utilization No-cure, no-pay licensing
			Resources	Competencies, reputation		Protection mechanisms	Status Patents
			Economics	Information asymmetry, learning and knowledge			
Value Network	Connectivity and conductivity	Co-producing network members or owners of network nodes	Activities	Network promotion and contract management, service provisioning, infrastructure operations		Revenue mechanisms	Subscription and transaction fees, third-party payment, interconnection and roaming fees
			Resources	Network (set of members or nodes)		Protection mechanisms	Lock-in from network externalities
			Economics	Direct and indirect network externalities			

Focus of the day

We will focus on following questions:

1. How purpose of the organization can be designed?
2. How organization design is impacted by the market environment and chosen strategy?

Strategy


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What is a strategy?

“deliberately choosing a different **set of activities** to deliver a unique mix of **value**” (Porter, 1996)

 **strategy**
/'stratɪdʒi/
noun

1. a plan of action designed to achieve a long-term or overall aim.
"time to develop a coherent economic strategy"
Samankaltaiset: master plan grand design game plan plan of action plan
2. the art of planning and directing overall military operations and movements in a war or battle.
"he was a genius when it came to military strategy"
Samankaltaiset: the art of war military science military tactics generalship

Käännä strategy kielelle

noun

1. strategia
2. toimintasuunnitelma

“an organisation gaining **competitive advantage** by plotting to discourage, disrupt, influence, or even deter a rivalling organisation” (Mintzberg, 1987)

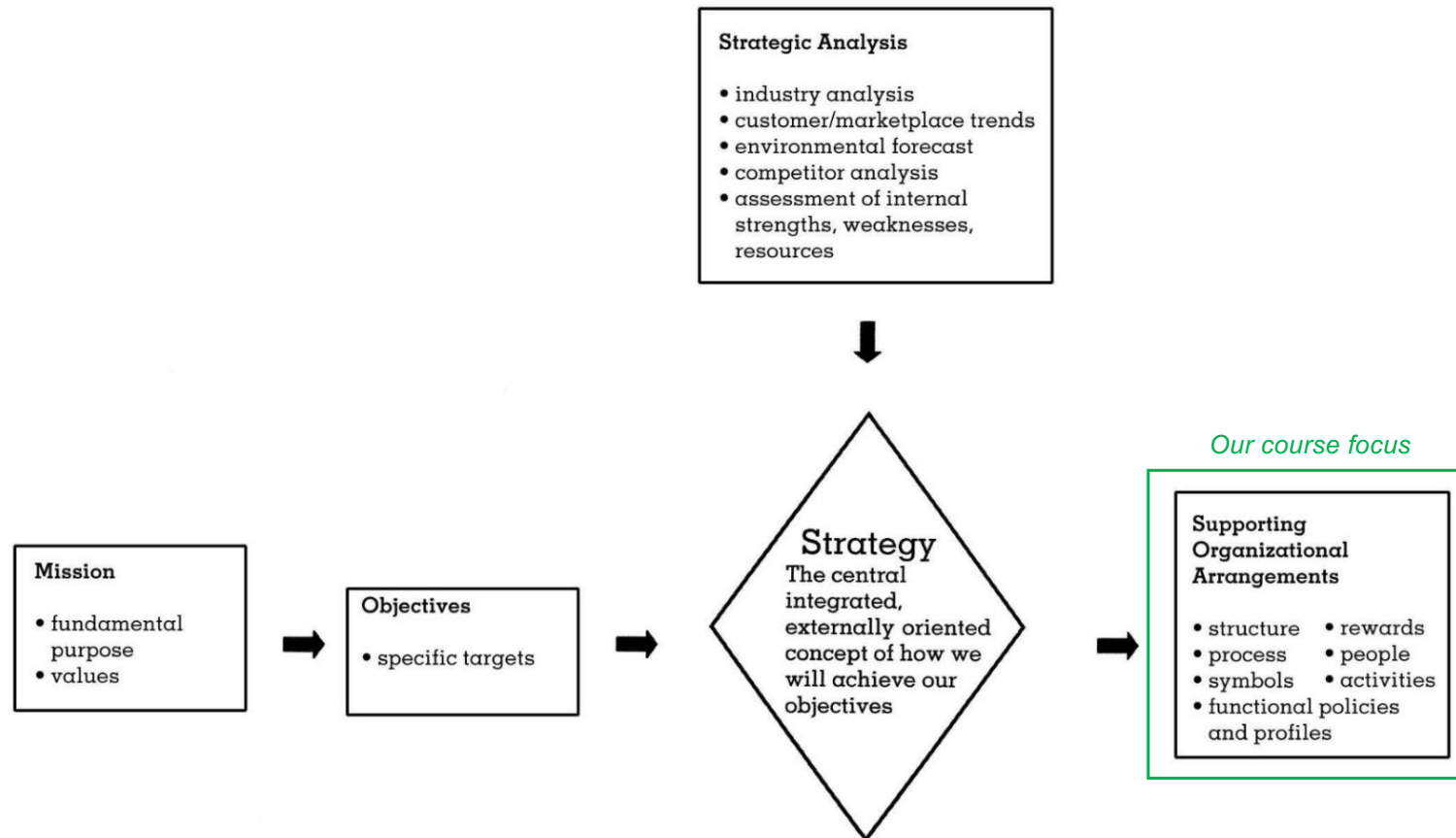


FIGURE 1
Putting Strategy in Its Place

Source: Hambrick, D. C., & Fredrickson, J. W. (2005). Are you sure you have a strategy? *Academy of Management Perspectives*, 19(4), 51–62.

TREND 1



Purpose



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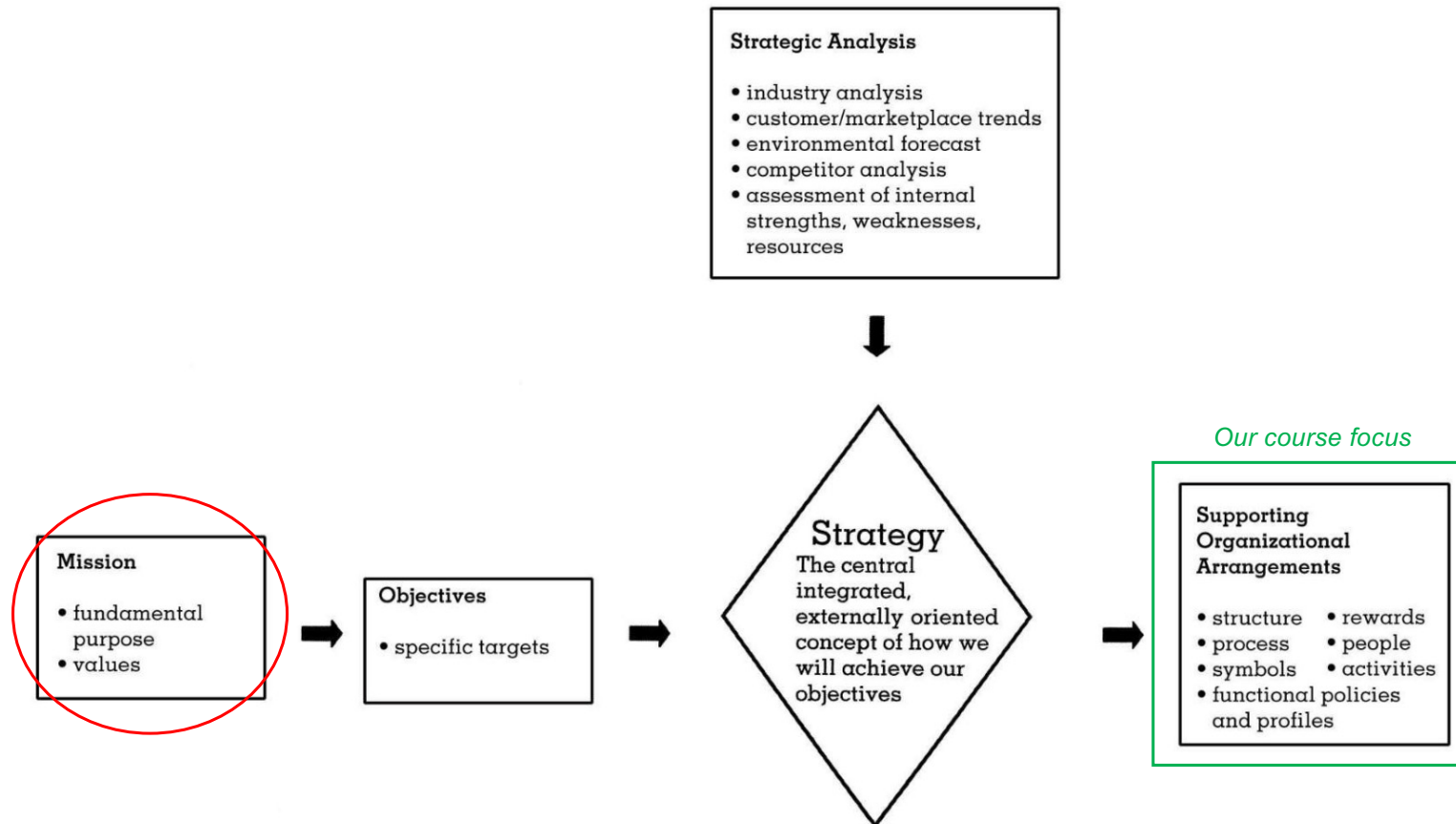


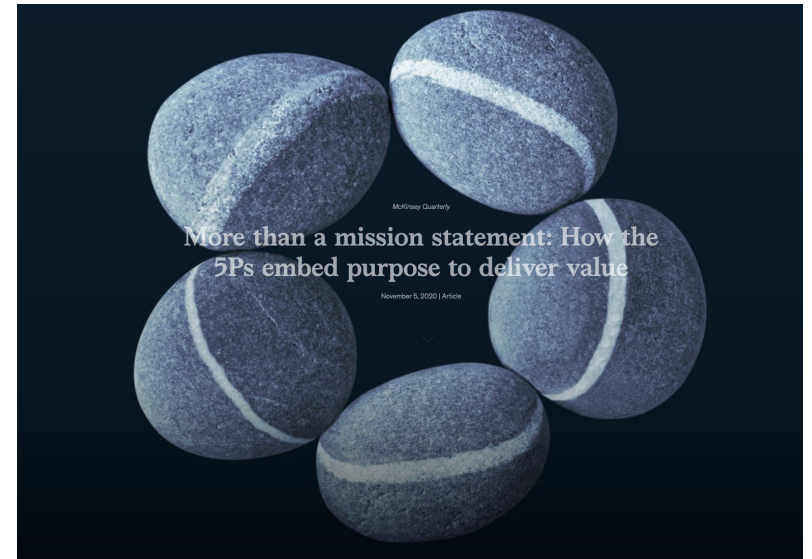
FIGURE 1
Putting Strategy in Its Place

Source: Hambrick, D. C., & Fredrickson, J. W. (2005). Are you sure you have a strategy? *Academy of Management Perspectives*, 19(4), 51–62.

Why purpose?

Purpose answers the question, “What would the world lose if your company disappeared?” It defines a company’s core reason for being and its resulting positive impact on the world. Winning companies are driven by purpose, reach higher for it, and achieve more because of it.

(McKinsey, 2020)



1. Consumers seek brands with purpose & are more loyal to them

- 64% of global consumers find brands that **actively communicate their purpose more attractive**. 62% want companies to take a stand on issues they are passionate about, and 52% say they are more attracted to buy from certain brands over others if these brands stand for something bigger than just the products and services it sells, which **aligns with their personal values**. (*Accenture 2018*)
- 64% of US adults say a company's "primary purpose" should be **"making the world a better place"**. (*New Paradigm Strategy Group & Fortune 2019*)
- US consumers are more likely to **have a positive image of (89%), trust in (86%) and be loyal (83%)** to brands that lead with purpose. Nearly eight-in-10 (79%) consumers surveyed say they feel a **deeper personal connection** to companies with values similar to their own. And 72% say they feel it is more important than ever to buy from companies that reflect their values. (*Cone/Porter Novelli 2019*)
- 70% of US consumers want to know what the brands they support are doing **to address social and environmental issues** and 46% pay close attention to a brand's **social responsibility efforts** when they buy a product. (*Markstein & Certus Insights 2019*)
- 74% of consumers believe companies can take actions that **both boost profits and improve economic and social conditions** for their local communities. (*Edelman 2018*)
- 79% of respondents in Cone/Porter Novelli's Purpose Study said they're **more loyal to purpose brands**, and 73% said they **would defend them**. Another 67% said they are more *willing to forgive* such a company for a mistake. 78% said they would **tell others to buy** from their companies and 73% would share content about that company. (*Cone/Porter Novelli 2018*)
- Globally, 67% of people agree that it has become more important that the brands they choose **make a positive contribution to society**, beyond just providing a good service or product. This is the majority view in virtually all countries surveyed. (*Ipsos 2017*)
- 72% of surveyed Gen Z in the US **factor in a company's purpose when shopping**. 75% will **do research** to see if a company is walking the talk when it takes a stand on an issue. And 85% say that they will **share their positive opinion** about a company that is doing good. (*Cone/Porter Novelli 2019*)
- Among the Generation Z, as many as 48% base their brand purchasing decisions on a **company's impact on the environment**, while 44% make choices on their **ethical stance**, and 21% on the **charity work** undertaken by the brand. (*KAM Media 2018*)
- Gen Z is 3x more likely to say that the purpose of business is **to "serve communities and society"** rather than to simply "make good products and services," and they are more likely than all other generations **to call on brands to make a difference** by "using their voice to advocate or speak out" on the most pressing issues of our times. (*BBMG & Globe Scan 2019*)
- While in 2013, only 44% of respondents thought that corporations **should stand up for their political beliefs**, by 2018 that percentage had jumped to 81%. (*Global Strategy Group 2018*)
- 64% of people globally expect CEOs to **lead on social change** rather than waiting for government intervention. And a significant 84% expect CEOs to **influence policy debates on social issues**. (*Edelman 2018*)

2. Purpose-driven businesses outperform the market

- Brands with a purpose set on improving our quality of life **outperform the stock market by 120%**. (*Interbrand 2017*)
- According to Kantar's Purpose Study, purpose-led brands had seen their **valuation surge by 175%** over the past 12 years, versus a growth rate of just 70% for listless brands uncertain of their role. (*Kantar 2018*)
- In 2018, Unilever's Sustainable Living Brands **grew 69% faster** than the rest of the business, compared to 46% in 2017. (*Unilever 2019*)
- Babson professor and Whole Foods advisor, Raj Sisodia, studied 28 companies from 1996-2013 and concluded: **purpose-driven enterprises grew by 1681%** compared to the S&P 500 average of 118%. (*Sisodia 2014*)
- The Global Leadership Forecast 2018 by DDI World finds that purposeful companies outperform the market **by 42% financially**. (*DDI World 2018*)
- Researchers at the School of Management at SUNY Binghamton found that certified B Corps had an impressive **51% revenue growth rate during the 2008 financial crisis**. (*Yale 2018*)
- Certified B Corps in the UK are growing **28 times faster** than the national economic growth of 0.5%. Leading B Corp FMCG brands grew **on average 21%** in 2017, compared to a national average of 3% across their respective sectors. (*B Corp 2018*)

3. People seek meaningful, engaging work - even if it means sacrificing income

- The percentage of "**engaged**" workers in the U.S. - those who are involved in, enthusiastic about and committed to their work and workplace - **is only 34%**, with 53% being "not engaged" and 13% being "actively disengaged". (*Gallup 2018*)
- There is a rise in people's expressed importance to live life **with a sense of purpose**: 80% in 2016, 89% in 2017, 91% in 2018. (*Enso 2018*)
- LinkedIn members want jobs that offer a sense of purpose: 74% of members **place a high value** on finding work that delivers on a sense of purpose. (*Imperative & LinkedIn 2016*)
- Only 28% of respondents in a PwC employee survey reported feeling **fully connected** to their company's purpose. Just 39% said they could clearly **see the value they create**, a mere 22% agreed that their jobs allow them to fully leverage their strengths, and more than half **weren't even "somewhat" motivated, passionate, or excited** about their jobs. (*PwC 2019*)
- At companies that have clearly defined and communicated how they create value, 63% of employees say **they're motivated**, versus 31% at other companies; 65% say **they're passionate about their work**, versus 32% at other companies. (*PwC 2019*)
- 83% of Gen Z in the US **consider a company's purpose** when deciding where to work. (*Cone/Porter Novelli 2019*)
- Four out of five US college graduates say it is very important (37%) or extremely important (43%) **to derive a sense of purpose from their work**, but only less than half of college graduates succeed in finding purposeful work. Those graduates are, however, almost 10x more likely to have high overall wellbeing. (*Gallup & Bates College 2019*)
- 67% of 6 to 9 year olds say that saving the planet will be the **central mission of their careers** in the future. (*Wunderman Thompson Commerce*)
- 84% of Millennials **value meaning in day-to-day work** (top priority for respondents), but only 53% of business leaders agree with that. (*PwC 2016*)
- Not only would 49% of Millennials **quit their job within two years** (a new high in this global survey), but also about 25% of the same respondents reported leaving an employer within the past two years. (*Deloitte 2019*)
- Compared to other generations, Gen Z is most likely to say they can make a difference by **doing meaningful work through their career** - 32% vs. 17% all other generational groups in the survey. (*BBMG & Globe Scan 2019*)
- Among US survey respondents aged 25 to 34, 80% say they **want to work for "engaged companies"**. (*New Paradigm Strategy Group & Fortune 2019*)
- More than 9 out of 10 employees are **willing to trade a percentage of their lifetime earnings** for greater meaning at work. (*Better Up 2018*)
- 27% of managers in British companies would likely **accept a salary cut** to work for a company that has a clear purpose beyond profit. 32% would actually **consider leaving their job** if a greater purpose was unclear, while more than half (53%) would if their company's values and purpose didn't align with their own. (*Danone/YouGov 2018*)

4. Purposeful work increases workforce productivity, well-being & loyalty

- Employees who report that their job has a "special meaning: this is not 'just a job'" are 4 times **more likely to give extra**, 11 times **more committed to staying** with their organisations and are 14 times more likely **to look forward to coming to work** than employees at peer companies. (*Great Place to Work 2017*)
- Research by Bain & Company concludes that if a satisfied employee's productivity level is 100%, an engaged employee's level is 144%, but the **productivity level** of an employee that is truly inspired by the purpose of their employer is a **whopping 225%**. (*Bain & Company 2015*)
- A global talent trends survey found that the **highest-performing employees** are 3x more likely to work for a company with a **strong sense of purpose**. Yet only 13% of the 7,600 respondents surveyed said that their organisation is differentiated by a "purpose-driven mission." (*Mercer 2018*)
- If employees feel they are working towards a good cause, it can **increase their productivity** by up to 30%. (*LMU Center for Economic Studies 2014*)

5. Business leaders recognise the need for purpose

- **Public discourse** about “corporate/organizational purpose” has increased fivefold since 1994, now trending at an exponential rate that surpasses the rate of public discourse about sustainability. (*EY 2016*)
- 94% of CEO's feel a **personal responsibility** for laying out their company's core purpose and role in society. (*UN & Accenture 2019*)
- 41% of Fortune 500 CEO's say solving social problems should be **"part of (their) core business strategy"**. (*SurveyMonkey & Fortune 2019*)
- 86% of B2B companies **recognize purpose as important to growth**, but they are still working out how to implement their purpose so that it influences business and social outcomes. Only 24% said **purpose is embedded into their business** to the point of influencing innovation, operations and their engagement with society. (*Carol Cone 2020*)
- 9,913 companies from 160 countries are currently members of the UN Global Compact – an initiative launched to **align businesses' strategy with social goals**, and to support the Sustainable Development Goals. (*UN 2019*)
- 79% of business leaders believe that an organization's purpose is **central to business success**, yet 68% shared that purpose is not used as a guidepost in leadership decision making processes within their organization. (*PwC 2016*)
- 65% of CEOs think the main role of purpose is **to connect with employees or customers**. And 84% of executives strongly agree that **business transformation efforts** will have greater success if integrated with purpose but only 46% of executives think their organization has a strong sense of purpose. (*Brandpie 2019*)
- While 76% of marketing heads were of the belief that their own organisation had a defined sense of purpose, **only a paltry one in 10** could produce a corporate purpose statement and plan to back-up these beliefs. (*Kantar 2018*)
- 66% of executives surveyed are profoundly **rethinking their purpose as a result of disruption**, and most of those (52%) are moving toward a **human-centered, socially-engaged** conception of purpose that seeks to create value for a broad set of stakeholders. 59% of business leaders see purpose as being very important to their own personal job satisfaction. (*EY 2017*)
- When asked which were the most critical factors when integrating purpose throughout their business, 93% of executives at purposeful companies cite the need to **embed purpose** in “our **culture** and **behaviors**, especially our **leaders**”, 93% also say purpose should be “clearly embedded into our **goals, strategies** and **objectives**”, and 92% say it should be “embedded in our **governance** and **decision-making** processes and systems.” (*EY 2017*)
- 89% of executives believe that a clear purpose is a **good guide/inspiration to future innovation** of products and services. And 84% of executives believe that **business transformations** will have greater success if integrated with purpose. (*HBR & EY 2015*)
- A strong majority of executives of purposeful companies – 75% – tell us that the integration of purpose creates **value in the short term**, as well as **over the long run**. 73% of business leaders say that having a well-integrated purpose helps their company **navigate disruption**. (*EY 2017*)

Examples

Discuss few minutes in pairs any companies that you find having a clear purpose. What is it and how do they promote it?

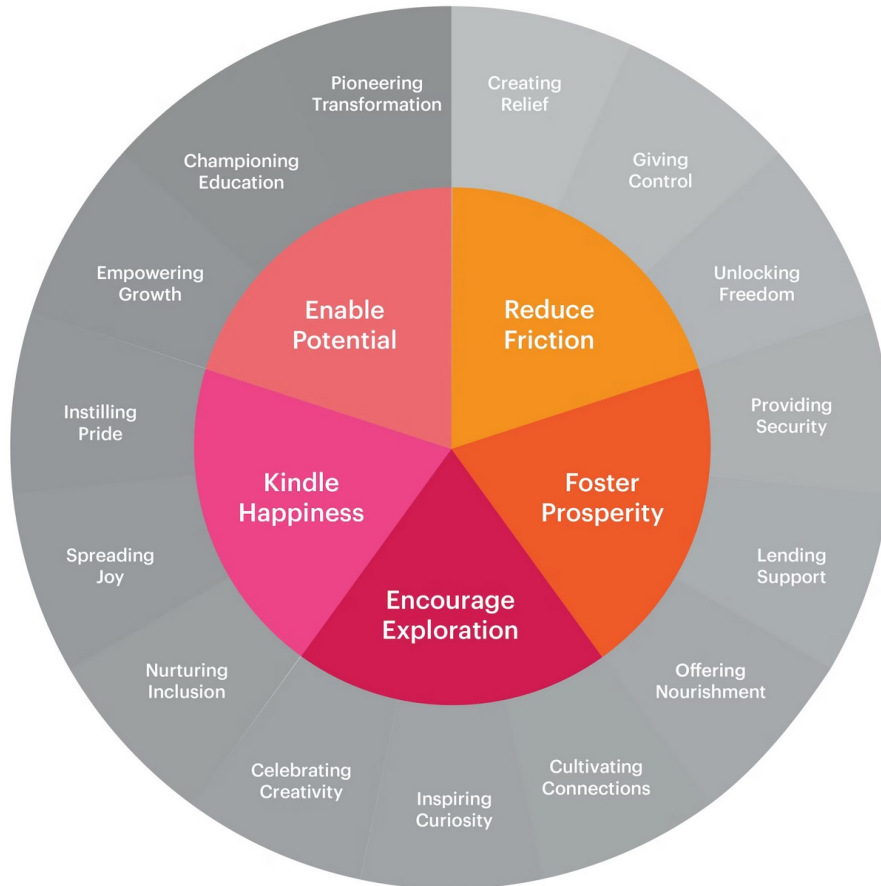
How purpose can be designed?

Design an Organization's Purpose Statement With This Tool

OCT 10, 2019

If you've ever tried to do anything with your extended family, you know getting a bunch of people to agree on anything is hard—where to go on vacation, what to eat, who to invite to come along. Businesses face the same kind of group challenges, which can prompt a lot of thorny questions. Where do we want to go together? What do we stand for? Beyond profit, why do we exist?

IDEO Purpose wheel



- We exist to **Enable Potential**
E.g. Creating impact by inspiring greater possibilities (Nike, Tesla)
- We exist to **Reduce Friction**
E.g. Creating impact by simplifying and eliminating barriers (Google, Netflix)
- We exist to **Foster Prosperity**
E.g. Creating impact by supporting the success of others (McKinsey, Michelin)
- We exist to **Encourage Exploration**
E.g. Creating impact by championing discovery (Airbnb, Adobe)
- We exist to **Kindle Happiness**
E.g. Creating impact by inciting joy (Dove, happy socks)

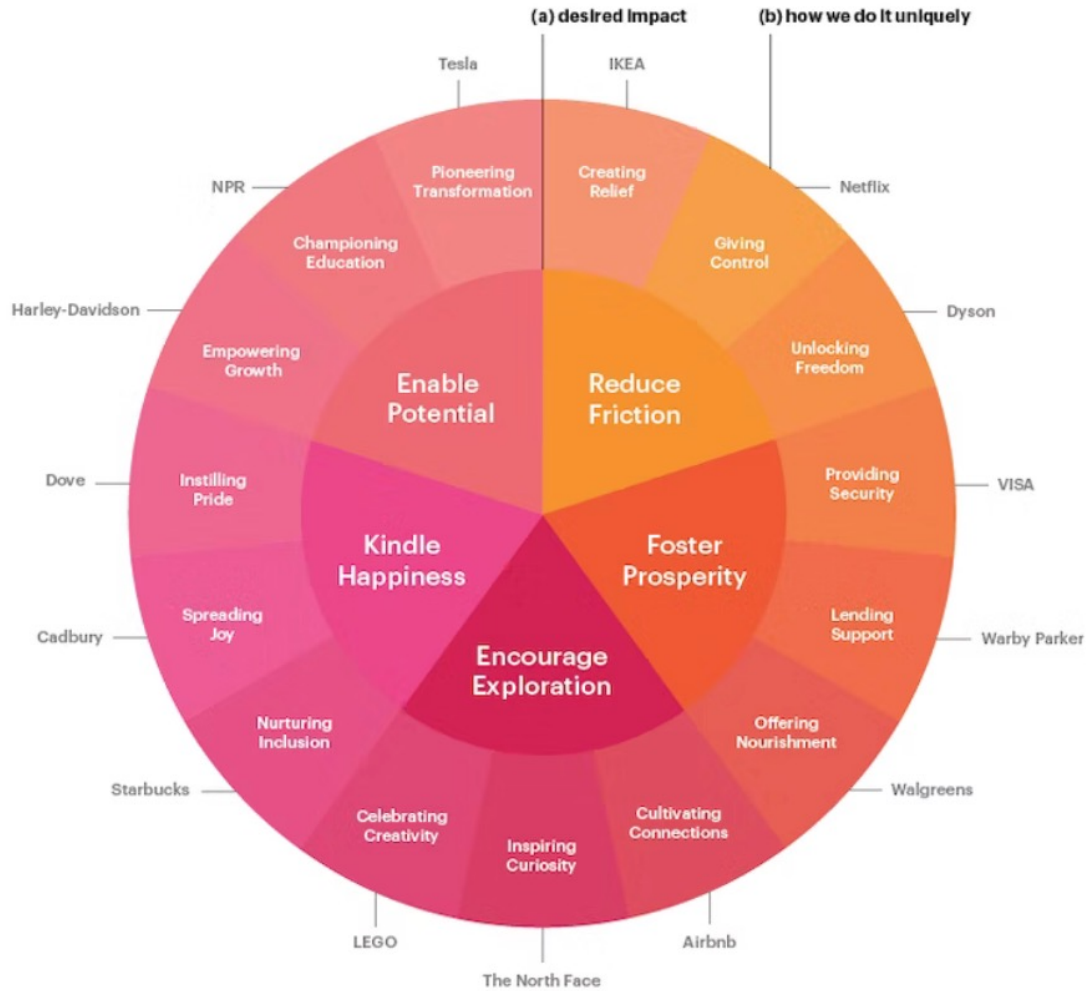
IDEO Purpose wheel



- What actions, behaviors, or experiences would have to happen in order for that statement of impact to be true?
- How might this kind of impact inspire your culture?
- How might this kind of impact change the way you make business decisions?

Purpose Wheel Framework

The Purpose Wheel is a tool that helps teams envision how a company might have impact in the world beyond profit. Start in the center to imagine the company's desired impact. Work outwards to experiment with how the company might achieve this. The results are key ideas that can help shape the company's purpose statement.



We exist to

(a) desired impact

by

(b) how we do it uniquely

to impact society for the better

How this impacts the people we serve:

Individual

Group

Society

Learn more at [ideo.to/purposewheel](https://www.ideo.com/blog/design-an-organizations-purpose-statement-with-this-tool)

<https://www.ideo.com/blog/design-an-organizations-purpose-statement-with-this-tool>



Examples



Pushing the limits of innovation and design, so that you can push your limits outdoors.



We're in the business to save our home planet.



TREND 2

Business Models

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What is a business model?

Value target



Who is our customer?

Value proposition



What value do we deliver?

Value constellation



How do we deliver the value?

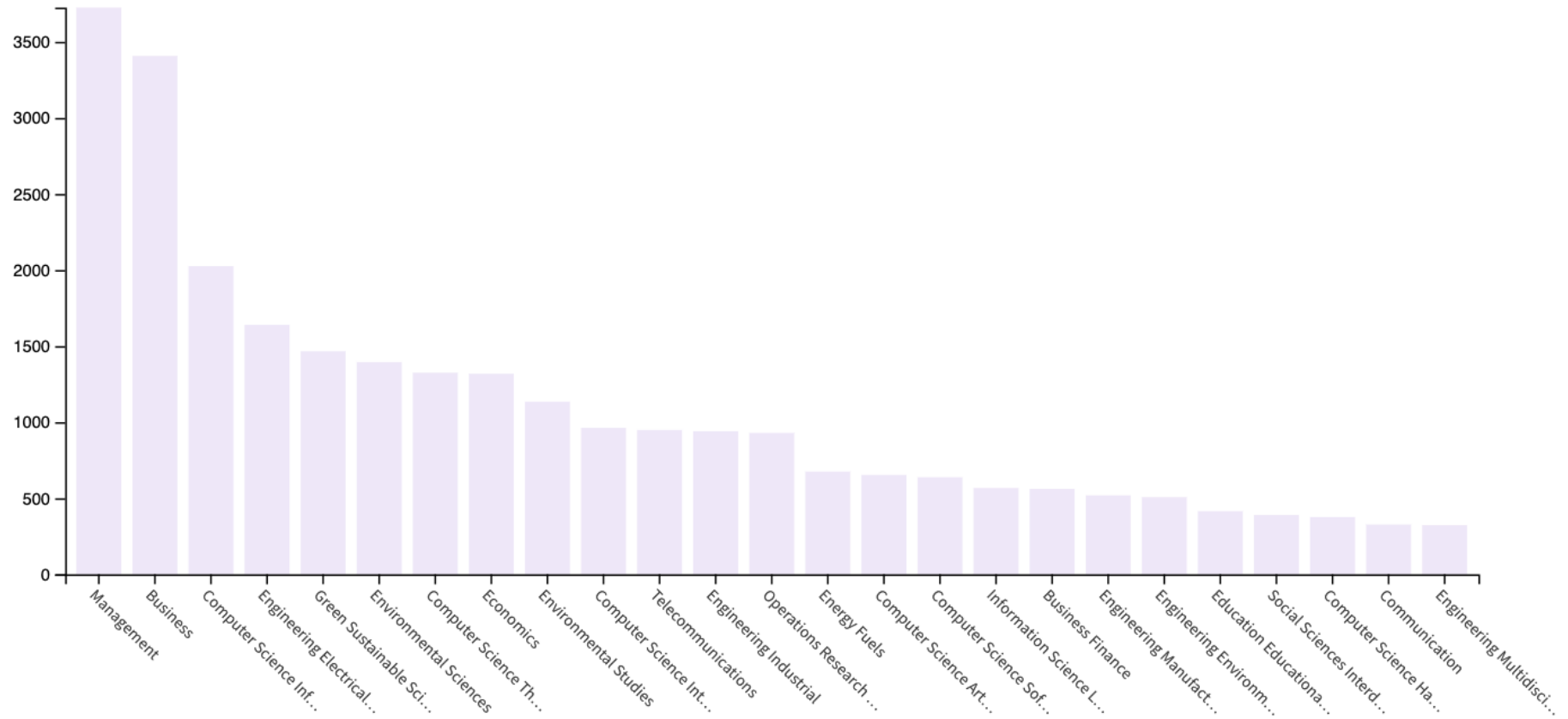
Value capture



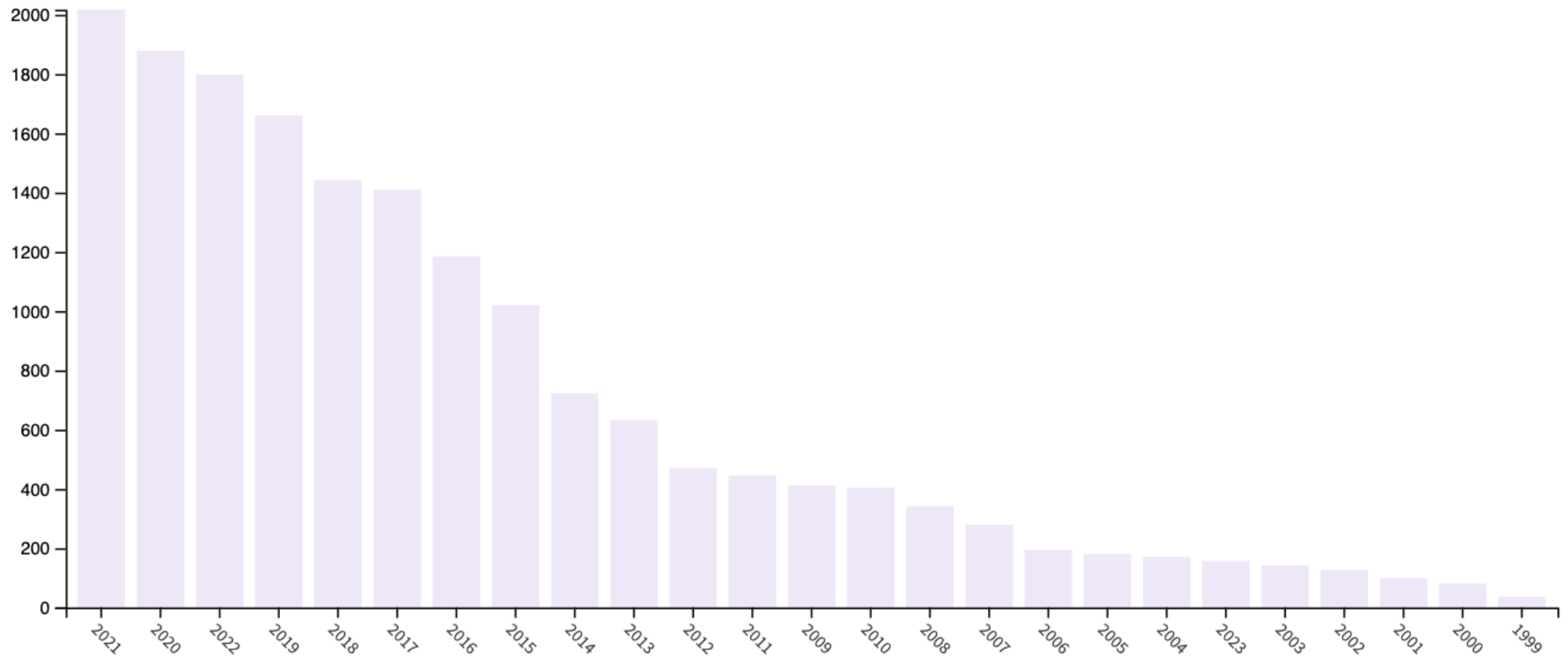
Why do we do this?

Pictures: Freepic.com

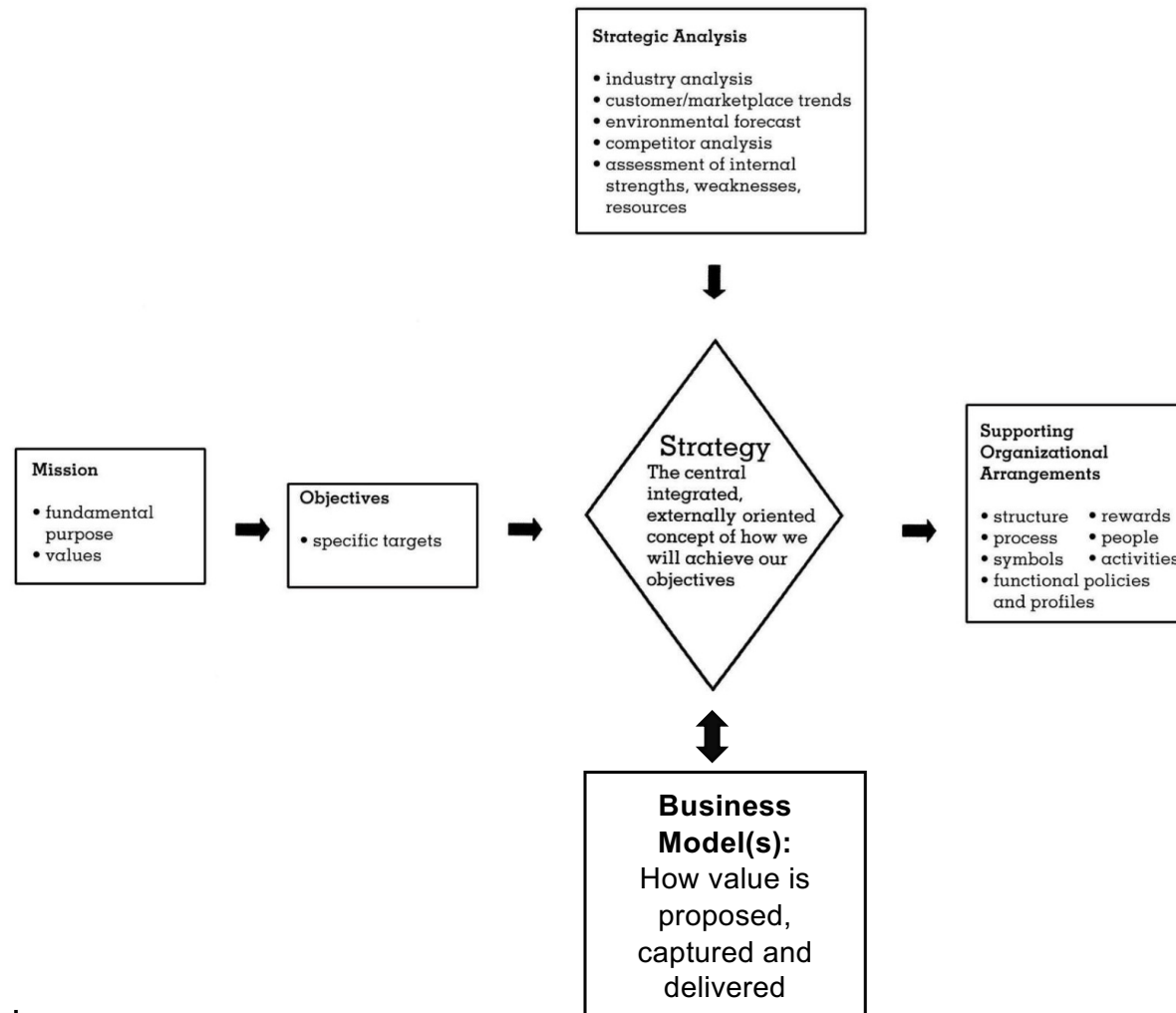
Topic that interests many disciplines



....And many scholars



Why business models?

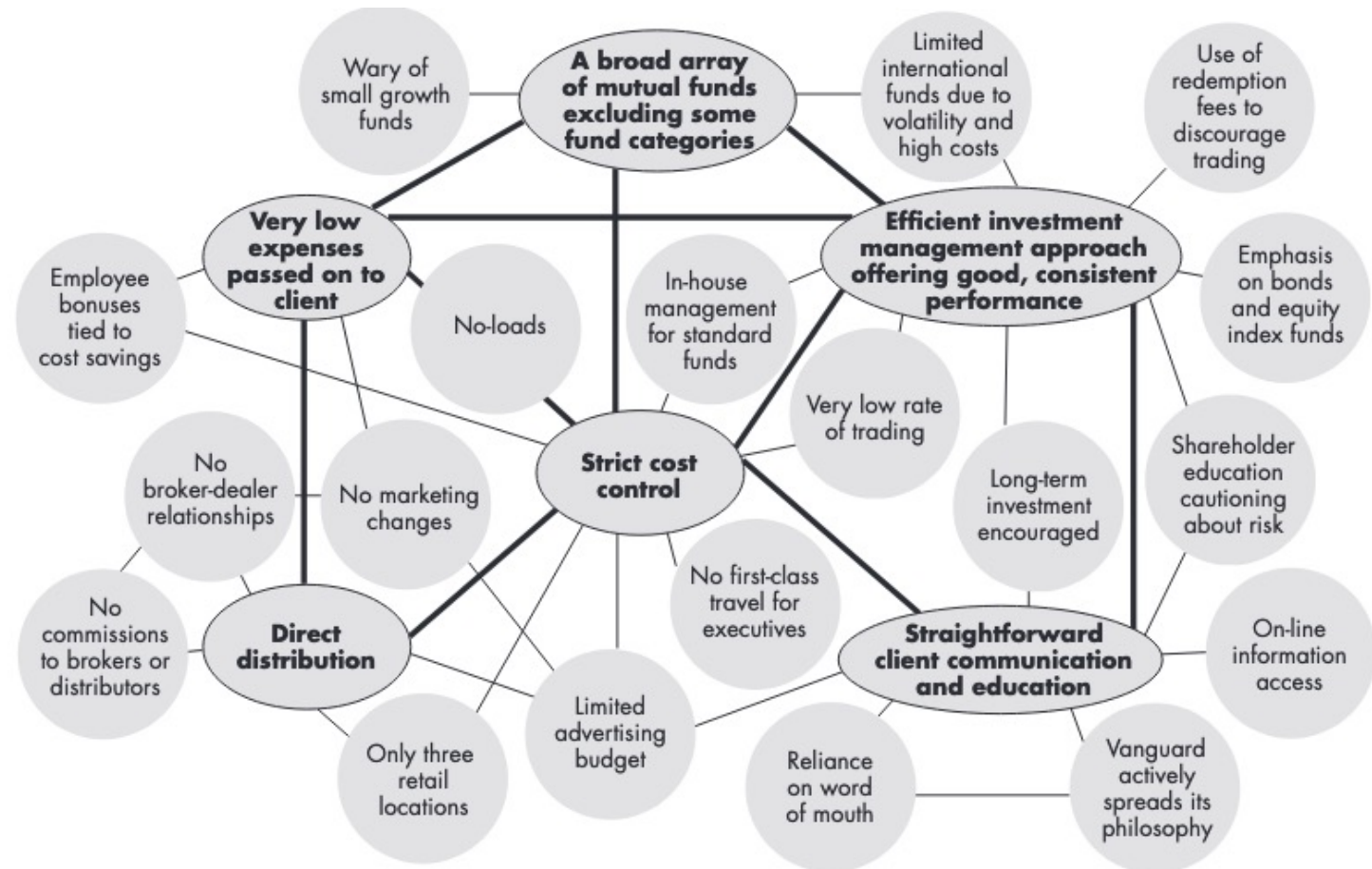


Value proposition – What value to whom?

Value capture and sharing – Why do we do this?

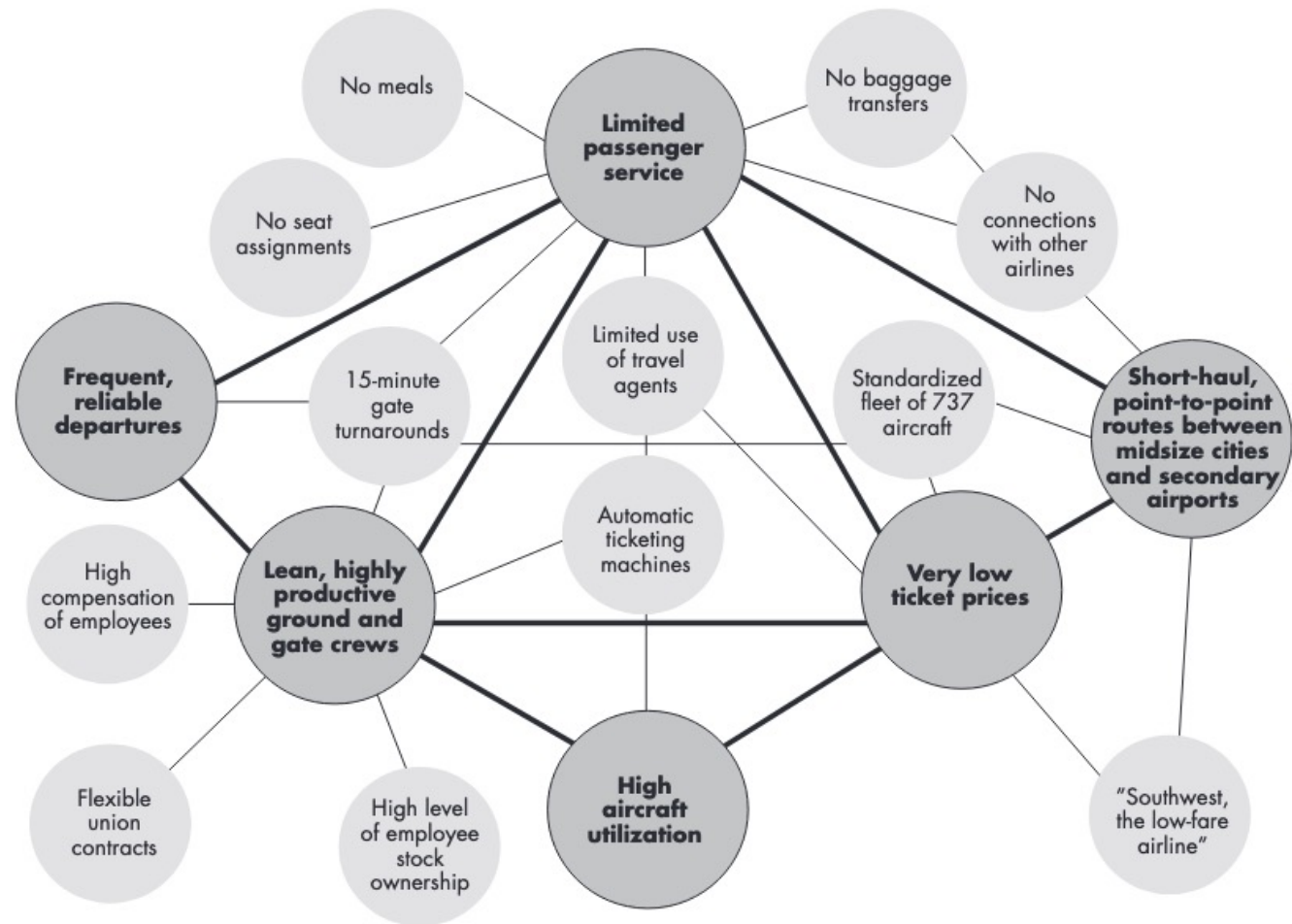
Value constellation – How do we enable this?

Vanguarts Activity System



Example

Southwest Airlines' Activity System

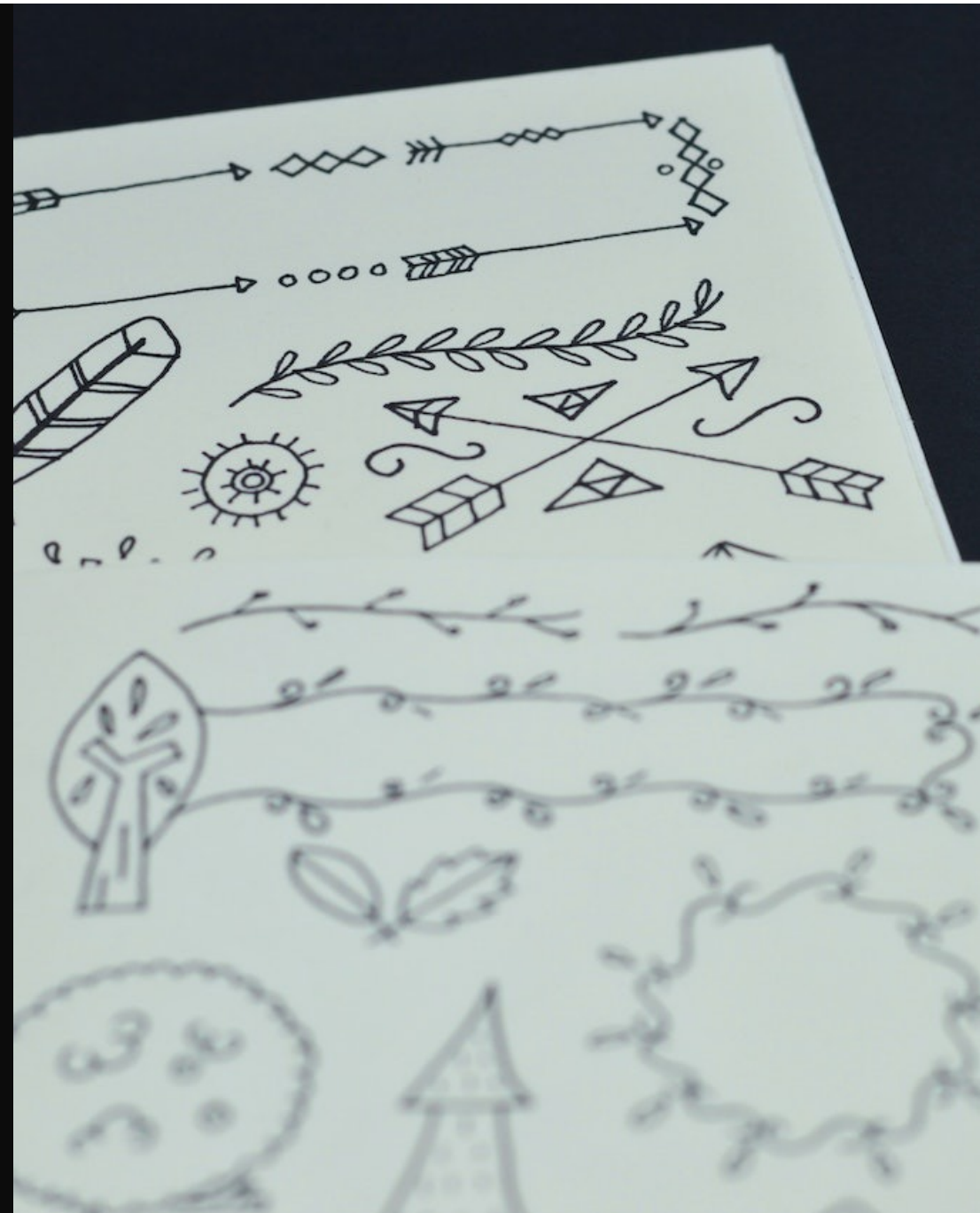


TREND 2

—
**Business
environment
dynamics**

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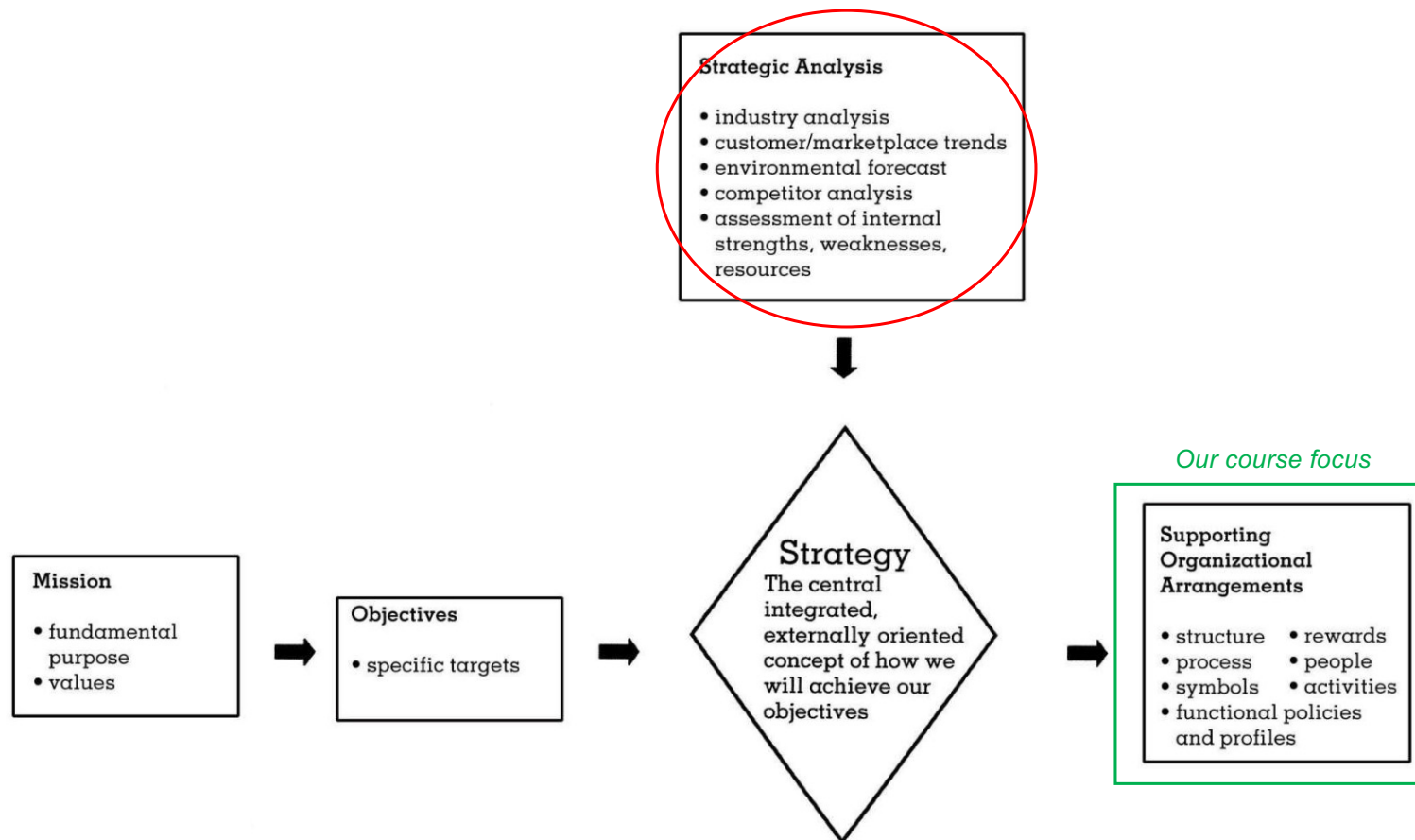


FIGURE 1
Putting Strategy in Its Place

Source: Hambrick, D. C., & Fredrickson, J. W. (2005). Are you sure you have a strategy? *Academy of Management Perspectives*, 19(4), 51–62.

How business environments are seen today?



VOLATILITY

The challenge is unexpected or unstable and may be of unknown duration, but it's not necessarily hard to understand; knowledge about is often available.



UNCERTAINTY

Despite a lack of other information, the event's basic cause and effect are known. Change is possible but not a given.



COMPLEXITY

The situation has many interconnected parts and variables. Some information is available or can be predicted, but the volume or nature of it can be overwhelming to process.



AMBIGUITY

Casual relationships are completely unclear. No precedents exist; you face "unknown unknowns."

How to deal with it?

V

VOLATILITY



Situational awareness, foresight

U

UNCERTAINTY



I am comfortable feeling uncomfortable

C

COMPLEXITY



Discovering boundaries – “what am I working within?”

A

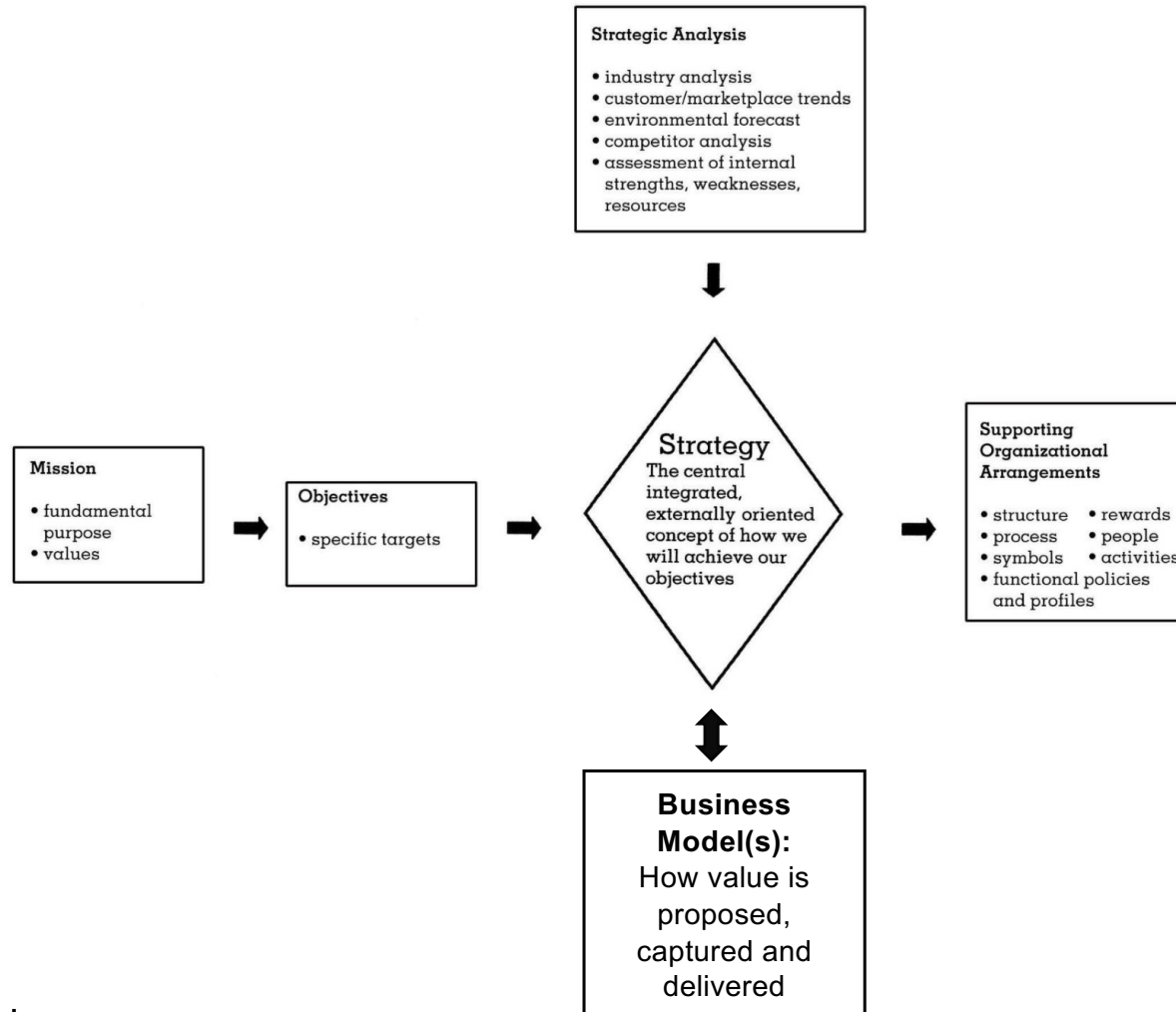
AMBIGUITY



Decide a course of action, be ready to change course

A?

Summary of the day



Summary of the day

Now you have preliminary understanding to following:

1. You have knowledge on how purpose of the organization can be designed (one specific example frame)
2. You are able to see how organization design is impacted by the market environment and chosen strategy.

On Thursday we will compare how different organization design solutions can fulfil the same functional needs.

And practice with some frameworks 😊.

What's Next

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

Themes: Functional approach to organizing and organization design.

Readings: Martela, F. (2019). What makes self-managing organizations novel? Comparing how Weberian bureaucracy, Mintzberg's adhocracy, and self-organizing solve six fundamental problems of organizing. *Journal of Organization Design*, 8(1), 1-23.

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Optional: Vaara, E., Harju, A., Leppälä, M., & Buffart, M. (2021). How to successfully scale a flat organization. *Harvard Business Review*.

References

Porter, M. (1996. What is strategy?. Harvard Business Review. Available at:
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Mintzberg, H. (1987). The strategy concept I: Five Ps for strategy. *California management review*, 30(1), 11-24.

<https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/more-than-a-mission-statement-how-the-5ps-embed-purpose-to-deliver-value>

<https://jp.ideo.com/blog/design-an-organizations-purpose-statement-with-this-tool/>

Thank You!



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