Alternative Organizational Design and Its Impact on the Future of Work

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The pyramid has served as the principal organizational design for over 4500 years. This paper highlights the problems with pyramids and offers seven alternative designs that remedy many of these problems. The importance of design and its impact on organizational survival, strategy, leadership, teamwork and the future of work are reviewed with real-life organizational examples. Cases are made for the replacement of hierarchy with heterarchy (Cloke and Goldsmith, 2002). Lastly, an appeal is made to CEOs to abandon the practice of command and control in favor of a more balanced life filled with shared responsibility and wealth.

INTRODUCTION

This paper suggests a radical and widespread redesign of organizational structure. For over four thousand five-hundred years the pyramid has been the principal shape of organizations regardless of century, size, sector or industry. The monarch/CEO, highly compensated for their tremendous responsibility, dedication and lack of work/life balance, sits atop several layers of subordinates – all who react to the edicts from above. The centrality of power at the foci, and exponential numbers of servant-workers at each succeeding level, supported or alienated by designated representatives called managers in between, predispose a continuous source of disempowerment, miscommunication and frequently organizational failure (or at least ineffectiveness). Actual pyramids of the ancient Egyptian variety were built as monuments and homage to powerful kings and queens circa 2500 BC. Are not modern organizations still doing the same thing?

This fundamental design flaw has evolved into a pattern of organizational beliefs and behaviors that contradict principles of management and result in considerable market loss and record numbers of organizational extinction. The giant downfalls in the 1990s of Citigroup, IBM, Proctor and Gamble and Xerox, to name a few, were in large part due to organizational design failures such as a weak reporting and authority structure and an inability to build and leverage global capabilities (Bryan and Joyce, 2007). Certainly there are principles of effective organizational change being widely ignored (Mueller, 2010) but also, and more importantly, the underlying cause. The assumption that a single person, even a benevolent, altruistic and extraordinarily wise person, can command and control exclusively and effectively from the very top of the structure is no longer true, especially given the increased complexity and electronic connectedness of our 21st Century world.

This pyramid assumption needs to be challenged, changed and championed by caring and concerned organizational citizenry; leaders of a new breed, unafraid and unencumbered by convention. Two such business leaders made their mark on unconventional organizational design to the expressed satisfaction of their customers and coworkers; and with remarkable business success. The first is Jan Carlzon (1987),
former CEO of Scandinavian Airlines (SAS) whose revolutionary upside-down pyramid placed customers on top and the employees who directly serve them immediately underneath (with subsequent management levels serving these key workers instead of vice-versa). Anyone who can affect a 74 million dollar red-to-black turnaround in one year needs to be more vigorously studied and emulated (Mueller, 2010).

The second exemplar is maverick Ricardo Semler (1993, 2004), the CEO of Brazilian marine equipment factory SEMCO. His rotating, concentric circle organizational design not only saved his failing company and his failing personal health but also spawned a dozen or so subsidiaries all of whom epitomize employee empowerment. SEMCO, decades later, is still a major player in several industries – a testament to their unique, forward-thinking organizational architecture. How soon will other companies start to follow suit? What conditions are necessary to create these revolutionary redesigns? How will alternative organizational design affect the way we work? These questions, as well as Peter Drucker’s prediction that the future organization will be patterned after symphony orchestras, and Cloke and Goldsmith’s (2002) “organizations as organisms” designs (originally introduced by Morgan, 1997, the metaphor master), will be expounded and explored.

THE IMPORTANCE OF ORGANIZATIONAL DESIGN

Organization design is concerned with constructing and changing an organization’s structure to achieve the organization’s goals (Robbins, 1990) yet little has changed in thousands of years. Greenwood and Miller (2010) stated the study of organizational design has been unduly neglected in spite of its critical importance for organizational performance. Perhaps they ignored or were not influenced by the work of Kesler (2011, 2009), Kates (2011, 2007), Schuster (2009), Strikwerda and Stoehlhorst (2009) and Galbraith (2009, 2007) which described organizational design as a core leadership competency and offered several design considerations including the matrix. Senge (1990) added that “the neglected leadership role is the designer of the ship. No one has more sweeping influence than the designer”. Anecdotally, I wonder if the captain of the Titanic would agree. Had sufficient emergency boats been added to the design of an iceberg-proof hull and an advanced guidance system would we be watching just another documentary instead of an ill-fated drama?

In any case, design is one of those things that we all take for granted yet it influences everything we do. Consider the design your own physiology (if you are spiritual) in the hopefully comfortably-designed chair you sit in at the soon-to-become obsolete keyboard that you plunk away at (will be replaced with marvelously designed and efficient voice recognition software) to design the syllabi your students ignore or embrace, in the office or home, building, neighborhood and city that were all designed by architects and urban planners. Design is interdependent and central to everything. Peters (1994) put it this way:

    design is…the fact that you sometimes buy books for the cover and wine for the label…color…poetry…equations like e = mc2…usable instruction manuals…business cards…what you most remember about what you’ve produced…why you love or hate things…[should be] part of everyday vocabulary throughout the organization, in the training department as well as in engineering and research…[should be] the formal position of the chief designer on the corporate organization chart…a visceral understanding that design is the primary way to differentiate a product or service…

Organizational design is no exception. Classical organizational design theorist Henry Mintzberg (2009, 1990, 1981, 1979) offered eight design configurations (professional, missionary, machine, diversified, network, political, autocratic and charismatic) based on five elements of an organization (technostructure, support staff, operating core, middle line and a strategic apex) (summarized in Matheson, 2009). All of these configurations have a top, where the power is, a middle and a bottom. Peters has argued since 1987 that organizations need to be flattened to no more than five levels with a span of control of up to 200:1 (and cited the 800 million-member Catholic Church as an exemplar). Yet a
flattened pyramid is still a pyramid with all its inherent structural and behavioral flaws. Oshry (2007) decried the systemic nature of this top-middle-bottom design and illustrated it this way:

Tops are burdened by what feels like unmanageable complexity; Bottoms are oppressed by what they see as distant and uncaring Tops; Middles are torn and confused between the conflicting demands and priorities coming at them from the Tops and Bottoms. Customers feel the nonresponsive delivery systems.

Top “teams” are caught in destructive turf warfare; Middles peers are non-cooperative and competitive; Bottom group members are trapped in stifling pressures to conform.

Tops are fighting fires when they should be shaping the future. Middles are isolated from one another when they should be working together. Bottoms’ negative feelings toward Tops and Middles distract them from putting their creative energies into the delivery of products and services; Customers’ disgruntlement with the system keeps them from being active partners in helping the system produce the products and services they need.

Throughout the system there is personal stress, relationship break-downs and severe limitations in the system’s capacity to do what it intends to do.

Economic historian Alfred Chandler (1962) offered the dictum that organizational design depends on strategy but I think it is the other way around or at least interdependent. The reversal was also echoed by Tom Peters in an academic article (1984). Consider the chessboard with its little squares and rules for each chess piece. Organizations, for thousands of years, have been characterized metaphorically by a multi-level board in which chess players advance or retreat their chess pieces to conquer or be conquered in the protection of the king. The majority are expendable pawns. The knights, bishops, castles and queen have expanded roles and mobility but are still expendable and directed in the protection of the king. Of course the chessboard and its pieces can be redesigned but it will no longer be chess. Don’t just change the rules, change the game!

PYRAMIDAL PRECEDENCE, POWER AND PROBLEMS

Hierarchy, with its centralized peak of power (the owner/CEO (board of directors notwithstanding), a “privileged class of overseers” (managers) and “indentured servants” (workers) has been the model of organization for 4500 years. The word hierarchy comes from the Greek root hieros, meaning “holy” as if those “in charge” were somehow omnipotent and omniscient. Hierarchy forces human relationships to conform to patterns that run counter to their natural direction thereby generating resistance. To overcome the resistance, hierarchies exclude those who resist from participating in decision-making, resulting in top-down autocratic leaders (Cloke and Goldsmith, 2002). As to the benefit of the hierarchical design, Malone (2004) summarized it nicely: “This, then, was the profound organizational choice our ancestors made to give up the freedom they enjoyed as hunters and gatherers in order to obtain all the economic and military benefits offered by large, centralized hierarchies”.

Babylonian King Hammurabi (1792 BC – 1750 BC) was the first recorded to illustrate the concept that ownership and management meant top-down responsibility. Among his 282 laws, “The Code”, inscribed in stone and displayed in public so all [literate] could see, was the edict “if a builder builds a house, and that house collapses and kills the owner’s son, the builder’s son will be put to death”. The legacy, minus the death penalty, has remained a constant throughout history and is echoed by Drucker’s statement that “management is responsibility”. Even though Drucker has consistently argued for decentralized organizational structure and self-management since 1947 the pyramid and all its implications remain.
Managerial miscommunication in a hierarchy is rampant. Cloke and Goldsmith (2002) reported that hierarchies create unnatural inequalities in power, privilege and status between managers and employees which transform organizational communications into a one-way street that results in dead end messages not getting to their intended targets causing enormous unnecessary damage. The filtering of messages up and down the ladder predictably produces animosity, hostility, feelings of rejection and disapproval, resistance to change, distrust, unresolved conflict, rumor and gossip. This, in turn, feeds a demotivated workforce and managerial-customer disconnection that may reflect in decreased level of service to customers causing their eventual exodus and ultimately organizational death (Fig. 1) evidenced by record numbers of company closures in 2012.

![FIGURE 1
PYRAMIDAL SPIRAL DISINTEGRATION](adapted from Cloke and Goldsmith, 2002)

One-way and Dysfunctional Communication

Demotivation

Customer Dissatisfaction and Disappearance

Organizational Decline and Dissolution

I call this compounding series of miscommunication and lack of listening *progressive disconnection*. Workers become alienated or inherit alienation from management, who are separated from the reality of customer contact, which results in customers buying from someone else who meets their needs. Gray (2012) made a compelling case for turning a death spiral (Fig 1) into a growth spiral by reconnecting customers and employees to companies through increased feedback, trust, transparency, experimentation and redesign. “Connected companies are not hierarchies, fractured into unthinking, functional parts, but holarchies [Koestler, 1967]: complex systems in which each part is a fully functioning whole in its own right… it’s podular”. This and other organizational design options are expounded in the next section.

**ALTERNATIVE ORGANIZATIONAL DESIGN**

*Matrices* emerged in the 1970s and featured the flexibility of multidisciplinary teams that purportedly enabled multiple project, program and product management. It changed unity of command into dual chain of command and facilitated the [arguably more] efficient allocation of specialists while maximizing economies of scale. Yet criticism of the matrix is perhaps best summarized by Strikwerda and Stoelhorst (2009) who said, “executives associate the matrix organization with unclear responsibilities, a lack of accountability, and political battles over resources, resulting in risk-averse behavior and loss of market share”. Note use of the word “executive” in the above criticism denoting that matrix organizations are of course hierarchical with all the aforementioned problems with pyramids.

Nevertheless, these Danish authors extolled and cited the popularity of what they called *multidimensional* design and counted IBM, Microsoft and Pricewaterhouse Coopers as examples. Multidimensional organizations share products, regions and customers but not employees. The customer-based approach allows multidimensional organizations to “eliminate information asymmetries and transfer pricing…”. While this approach is based on the sound business principle of giving customers what they want (Peters, 1987) it is not clear to me what the multidimensional design looks like. They stated, “it is based on design principles that facilitate the creation of synergies across units to serve increasingly fragmented markets” yet they offer no illustration save an allusion to a network. Therefore, I am unable to comment further on the concept.
In the 1980s legendary Swedish CEO Jan Carlzon acknowledged the importance of his customers, airline passengers at Scandinavian Air Systems (SAS), and prominently placed them on top of his radical organizational redesign: the inverted pyramid. Next in line were the ticket agents, flight attendants and baggage handlers all of whom were empowered to make operational decisions that were normally reserved for management, in favor of the passengers, mainly European business travelers. This changed the role of the supervisor to support the line staff (instead of vice versa). It also changed the role of the executive team to be one of support to the manager. Carlzon (1987) argued,

Although these people are called middle management they are actually not managers at all if by manager we mean someone who makes his own decisions within a sphere of responsibility. In reality, they are just messengers who relay decisions made higher up in the corporate pyramid.

Eleven of fifteen vice presidents could not adapt to their new, “power-shared” position and were fired. The phenomenal result of the inverted pyramid design was a $74 million turnaround (−$20M to + $54M) in one year (Robbins, 1990; Carlzon, 1987).

A December 2012 email query to the Head of Press Relations at SAS asked these three questions: 1) Does SAS still feature an inverted pyramid organization design initiated by Jan Carlzon in the 80s? 2) If so, how well is the design working in terms of decision-making, employee engagement and empowerment? 3) If not, is there any speculation as to why it was abandoned and what replaced it? While a response was not received in time for the impending deadline of this paper, it should be noted that SAS was on the brink of bankruptcy as of the end of 2012 (https://gulfnews.com/business/economy), hardly a testament to the legacy of the inverted pyramid if it indeed still exists at SAS.

More importantly, given the phenomenal success of the design in the 80s, why has the inverted pyramid not been emulated elsewhere in the world? Could it be that CEOs and their executive teams lack the courage to let go of their power? Savvy advice from the late Peter Drucker indicated “unfortunately I know of no procedure or checklist for managerial courage”. Or is the design unsustainable for some other reason(s)? These questions certainly beg additional research from organizational behavior and social psychological specialists but they are partly answered by maverick CEO Ricardo Semler (2007, 2005, 2004, 1993), the creator of the fourth organizational design model reviewed in this writing, the concentric circle. Wrote Semler (2007)

It’s an organizational design that no longer has to prove its worth. It has not only weathered Brazil’s cycles of deflation and hyper-inflation plus political swings to the right and left, but actively prospered 30 – 40% per year now employing 3500.

The concentric circle design consists of three circles although Semler argued “SEMCO has no official structure” (2004). The inner circle, the board, consists of approximately eight strategists called Counselors; and the CEO (not Semler) is rotated out every six months. That way, “the acting CEO cannot be blamed or credited for the company’s performance” (Semler, 2004). The other Counselors consist of Semler, three senior executives, two rotating senior managers, and two first-come, first served workers. The rotating Counselor positions are from the middle circle, five to sixteen business unit leaders called Partners, who are elected, not selected, by all remaining employees called Associates. The business units are quite diverse and include high tech mixing equipment, cooling towers, facility management, environmental consulting, HR outsourcing and inventory control. They have three criteria when considering a new venture: highly engineered complexity (an entry barrier); high-end products and services that they can be the premium player in; and a unique, niche market regardless of industry. The formula works quite well. For example, repeat customers like Wal Mart (SEMCO manages their inventory, cooling towers, building administration and environmental investigation) represent close to 80% of their annual revenue.
The concentric circle is a democratic approach and “a new architecture for organizations that is based on much more freedom and flexibility, making employees want to go to work on Monday morning” (Semler, 2005). When asked if all companies could be structured like SEMCO, Semler responded to Shinn (2004),

This is an exercise in sociology or anthropology and has to do with respecting tribes. It has very little to do with types of companies. So, yes, it seems universally applicable to people and how they work. We’ve seen that proved in practice by police divisions, hospitals and schools in many parts of the globe - in organizations that have seen our way of doing things and have implemented similar concepts.

As of this writing I was unable to find companies who had followed the concentric circle of organizational design although I suspect they exist because Semler said so above. An email inquiry to him at SEMCO has not yet produced a response as of this writing. Nevertheless, when asked why so few companies follow the model Semler responded in 2007,

It has to do with fear and stasis. There is nothing in the system to help people make a leap of faith to let go of control. I know that as I let things deconstruct it will turn out better but not many can do this. Giving up control is something none of us do well in any aspect of our lives. Part of the problem is that the present system throws up the wrong sorts of leaders. It ousts the timid or introverted and alienates women.

Relatedly, Good to Great author Jim Collins (2001) discovered in his analysis of 1,435 Fortune 500 CEOs that only 11 shifted from good to great stock performance; and every one of the eleven companies was headed by a CEO that personified humbleness and distributed leadership. Capabilities of distributed leadership include visioning, sense-making, inventing and relating; and can be exercised from anywhere in the organization (Ancona, Malone, Orlikowski and Senge, 2006). The concept and practice of distributed leadership (also known as empowerment and participative management) has made great strides in educational administration, e.g., Bush and Glover (2012), Klar (2012), and Jappinen (2012); and in the field of nursing, e.g., (Thomlinson, 2012) who wrote

The data findings, on the whole, suggest the premise of the study and the government’s policy position…with a distributed approach the team is positively engaged, patient-centered care is the norm and organizational goals are met.

All of these examples were from highly regulated and bureaucratic organizations. In higher education, equally bureaucratic, distributed leadership may be synonymous with shared governance required by many regional accreditation bodies. Imagine the impact of distributed leadership and shared governance in non-hierarchical designed organizations, and indeed, entire institutions.

A fifth and sixth organizational design option hail from the disciplines of music and anthropology. The metaphor of music has long been used by organizational theorists and practitioners including Semler (2004), Zander and Zander (2000), Drucker (1999), DePree (1992) and many more. Whether symphony, jazz or some other genre it is important to note that musicians play from a common score (sheet music = mission statement), take turns leading from any chair and derive tremendous satisfaction and personal growth in the performance of their instrument in concert with others. These are certainly noble activities for any employee or employer anywhere.

Regarding organizational design, the symphony option features a deep semi-circle with a single conductor who “never makes a sound during the performance” (Zander and Zander, 2000); whereas the jazz, rock or equivalent smaller ensemble is a tribal circle with rotating leadership that enables individual interests and talent. The two designs are not mutually exclusive: symphonies occasionally accompany smaller bands or soloists in a display of consummate teamwork. Yet Zander and Zander (2000) admitted,
“the profession of conductor is one of the last bastions of totalitarianism in the civilized world!” Tribal circles, illustrated by Logan, King and Fischer-Wright (2008) are naturally occurring corporate groups of 20 – 150 people led by executives who become expert listeners and guide them through five stages, upgrading them with specific leverage points. Their ten-year longitudinal study of two dozen organizations concluded “tribes have the greatest influence in determining how much and what quality work gets done”.

The seventh and final organizational design option reviewed in this writing is the network. The network has also been labeled a pod (Gray, 2012); an organism, (Hatch, 1997); a brain, an organism and a hologram by Morgan (1997); and a hologram predated by Mackenzie (1991, 1986, 1978, 1976). While the pod, organism, hologram, brain and network differ somewhat but MacKenzie (1978) united them with this apt observation: “it is erroneous to think of an organizational structure as a rigid and static object. Organizational structures realistically should be seen as processes of interactions which change as conditions change”. Morgan (1997) added these five principles of holographic organizations: 1) whole into parts (including networked intelligence, structural self-reproduction and vision, values and culture as corporate “DNA” ) 2) redundancy of information processing, skill sets and work design 3) requisite variety such that the internal complexity matches the external environment  4) minimum space and 5) learn to learn to include emergent design.

Networks are a return to decentralization and feature self-managing teams connected by nodes. In living organisms, nodes are groups of specialized cells or organs that work together to form systems like the nervous system. In organizations, “nodes are the places where people connect with goals. They are fast forming, inclusive, easy to enter and leave, hyperconnected and ubiquitous” (Cloke and Goldsmith, 2002).

Networks also replace hierarchy with heterarchy. The word heterarchy originates from the Greek word *heteros* meaning neighbors and “implying organizations that are networked, participative, democratic, egalitarian and self-managing”. Heterarchy suggests that all organizational members are peers and have equal power that is shared laterally; important decisions are made at all levels, principally by consensus. Heterarchy means “bottom-up, top-down, and sideways” (Cloke and Goldsmith, 2002) who further illustrated

Webs are informal, interactive hubs of self-management…free-floating partnerships in a context of shared values [requiring] curved geometry…[reflecting] paradigms of relativity, quantum mechanics, evolution, energy fields, chaos, string theory and complexity…boundaryless…eliminate need-to-know and organizational secrecy

EBay, SEMCO and Wikipedia are popular contemporary examples of the network-designed organization.

Gray (2012) described networks as democratic and podular organizations, “every pod is an autonomous fractal unit that represents, and can function on behalf of, the business as a whole”. He cited SEMCO as an exemplar

Workers at SEMCO choose what they do as well as where and when they do it. They even choose their own salaries…review supervisors [performance] and elect corporate leaders…on important decisions, everyone gets a vote… if a business grows to more than 150 people, SEMCO will split it into two…nearly a quarter of SEMCO’s profits go to employees…growth from $4 million in 1980 to more than $200 million today

Malone (2004) summarized the economic and noneconomic benefits of web-designed decentralization: motivation, creativity, flexibility, freedom and individualization; the antithesis of the pyramid. He also aptly summarized the history of organizational design history with this three-stage pattern. Stage One: people operate in small, unconnected groups (tribes). Stage Two: larger groups are formed and decision-making became centralized (bureaucracies). Stage Three: large groups remain but decision-making becomes more decentralized (network democracies).
SUMMARY AND CONCLUSION

Regardless of organizational design, the only organizations that seem to endure the test of time (or at least over a hundred years) are those which retained the original value system of the founder of the organization (Collins and Porras, 1994). The first of seven strategies for an emerging organizational design offered by Cloke and Goldsmith (2002) is to “shape a context of values, ethics and integrity”. The second strategy offered by Cloke and Goldsmith is to “form living webs of association” in a context of organizational democracy where there is no top, middle or bottom: everyone is self-managing. Certainly this is consistent with the emerging network design of organizations.

Figure 2 summarizes organizational design options. I want to emphasize that these designs are not mutually exclusive. For example, SEMCO expanded into a network after its experimentation as a concentric circle.

FIGURE 2
ALTERNATIVE ORGANIZATIONAL DESIGN

1. Matrix
2. Multidimensional
3. Inverted Pyramid
4. Concentric Circle
5. Semi-circle with Conductor (Symphonic Model)
6. Tribal Circle (Small Musical Ensemble/Band)
7. Network (aka pod, organism, brain, hologram)

To conclude I would like to return to my hero, Semler (2004), whose ground-breaking sustainable concentric circle organizational design contains many network features, and wrote

I believe it is time for organizations designed on the twentieth-century model is over…Redesigning the sustainable workforce for the twenty-first century means letting in fresh air and giving up control…until [we] begin to respect such concepts as work-place democracy, the need to question everything, and the search for a more balanced existence, even the most modest goals will be beyond reach

Thomas Kuhn (1962) showed that it takes about thirty years before a new scientific theory becomes a new paradigm; whereas Kaplan (2012) warned us “don’t get netflixed: your current business model isn’t going to last much longer”. Let’s hope we are still around in the 2030s to see if the manifestation into a new model of work and organizational life took place -- with all the rights, responsibilities and privileges thereof. Applications of exemplars, as well as other comments and criticisms, are encouraged to be sent to jmueller@nu.edu.

REFERENCES


Shinn, S. The maverick ceo. *BizEd* Vol. 3 (2). BizEd is the property of AACSB International.


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