Frameworks for Organizational Design
Executive Brief
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This report five leading frameworks companies can use when approaching organizational design. Although there is no universal or ideal organizational structure, the most notable common thread connecting these top approaches is organizational strategy. Each framework emphasizes that considerations of the organization’s strategy should be the key determinant of how the business will be structured. Different strategies lead to different organizations; the chosen design best meets the criteria derived from an organization’s unique strategy.

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Jay Galbraith’s Star Model

Jay Galbraith’s star model is one of the most widely-used and accepted organizational design frameworks. This model relies on the following five categories of design policies: strategy, structure, processes, rewards, and people. These categories determine the direction of the organization, the location of decision-making power, the flow of information, the motivation of people to perform, and employee mindset and skills. In other words, strategy drives structure; processes are based on structure; and structures and processes define the implementation of reward systems and people policies. Figure 1 below depicts Galbraith’s Star Model and provides an overview of the components included within each category of his framework.  

1. Strategy is the first component of the star model to address and establishes the criteria for choosing among alternative organizational forms. Each organizational form enables some activities while hindering others; strategy dictates how to make these trade-offs.

2. Structure determines the placement of power and authority in the organization.

3. Processes cut across an organization’s structure and determine its functioning. Vertical processes allocate scarce resources while lateral processes enable work flow.

4. Rewards align goals of employees with organizational goals. Rewards must be congruent with structure and processes to influence strategic direction.

5. HR policies produce the talent that is required by the strategy and structure of the organization, generating the skills and mind-sets to implement the company’s chosen direction.

Strategy and structure are the first design policies to be addressed through this model. Figure 2 below introduces the five basic structures that can be derived from various strategies; refer to page 4 for additional information on each structure type.
Galbraith’s Star Model design requires organizations to use a chosen strategy to inform structure decisions. Figure 3 below highlights the five basic structure options introduced on the previous page and connects them with the strategy characteristics they facilitate. Organizations can use this figure to make design trade-offs depending on the strategy characteristics and goals they find most critical:

**Figure 3: Strategies Associated With the Five Basic Structure Options**

<table>
<thead>
<tr>
<th>Structure Type</th>
<th>Description</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Functional Structure | Organized around activities or functions         | • Gathering workers of one type allows them to transfer ideas and knowledge  
• Allows for greater scale, specialization, and standardization  
• Presents a single face to vendors to exercise buying leverage  
|                      |                                                  | • Creates barriers between different functions  
• Overwhelming if there are a variety of products, channels, or customers  
|                      |                                                  |                                                                                                                                                                                                             |                                                                                                                                                                                                             |
| Product Structure    | Multiple functional organizations, each with its own product line | • Compresses the product development cycle because each unit focuses on a single product line  
|                      |                                                  | • Divisions want autonomy, so they reinvent the wheel and duplicate resources  
• Organization loses economies of scale  
• Challenging when customers buy from more than one product division  
|                      |                                                  |                                                                                                                                                                                                             |                                                                                                                                                                                                             |
| Market Structure     | Organized around customers, markets, or industries | • Companies with superior knowledge and information about market segments have a competitive advantage  
• Helps service businesses that must focus on market segments  
|                      |                                                  | • Tendency to duplicate activities and develop incompatible systems  
• Difficulty sharing common products or services  
|                      |                                                  |                                                                                                                                                                                                             |                                                                                                                                                                                                             |
| Geographical Structure | Organized around districts, regions, or territories | • Minimize costs of travel and distribution when close to the customer  
• Helpful if organization needs to be located near a source of supply  
|                      |                                                  | • Becoming less important now that technology allows companies to be anywhere and seek the best global location  
|                      |                                                  |                                                                                                                                                                                                             |                                                                                                                                                                                                             |
| Process Structure    | Organized around a complete flow of work         | • Allows a renewed look, from end to end, at an entire process  
• Processes with end-to-end coverage lend themselves to measurement more easily than other functions  
|                      |                                                  | • Creates barriers in handoffs between various process groups  
|                      |                                                  |                                                                                                                                                                                                             |                                                                                                                                                                                                             |

<table>
<thead>
<tr>
<th>Characteristics of Strategy Supported by this Structure</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Small-size, single-product line</td>
<td></td>
</tr>
<tr>
<td>Undifferentiated market</td>
<td></td>
</tr>
<tr>
<td>Scale or expertise within the function</td>
<td></td>
</tr>
<tr>
<td>Long product development life cycles</td>
<td></td>
</tr>
<tr>
<td>Common standards</td>
<td></td>
</tr>
</tbody>
</table>
The Boston Consulting Group presents four building blocks that help a company avoid the pitfalls of organizational redesign and create the most successful structures. These include identifying the right business issues, pinpointing the right underlying obstacles, adopting the right design characteristics, and implementing change the right way. Figure 4 below provides additional details for each building block, while information regarding optimal design characteristics stemming from these building blocks is included on page 6.2

**Figure 4: Boston Consulting Group’s Four Building Blocks**

<table>
<thead>
<tr>
<th>BUILDING BLOCK</th>
<th>DESCRIPTION</th>
<th>GUIDING QUESTIONS</th>
</tr>
</thead>
</table>
| Right Issues           | Because good design is based on good strategy, companies should translate business issues into goals for the redesign. Organizations must understand how they compete, where they make money, and what organizational levers enhance performance. | • How important is leveraging global opportunities?  
• How critical is cost to shareholder value?  
• Where are the synergies across the business portfolio? |
| Right Obstacles        | Once business issues are identified, organizations must decide what it takes to address these issues. Obstacles to achieving solutions must be pinpointed accurately to ensure a redesign’s success.                   | • How does your organization work today in terms of communication, workflow, and results?  
• Where are the obstacles in terms of goal alignment, resources, culture, and values? |
| Right Design Characteristics | Successful designs manage tradeoffs. They also respond to the global nature of today’s economy, an evolving workforce, and the increasing role of speed and scale in competitive advantage. | • How does industry evolution, including globalization, information technology, and deconstruction, affect design options?  
• How will work force trends such as increased career mobility alter design options?  
• What design options will enhance speed and leverage scale? |
| Right Change           | Successful redesigns are implemented organically rather than mechanically. Redesign efforts succeed when the organization has a clear vision for action, committed leadership, and exacting project management. | • Are key stakeholders involved in the redesign?  
• Have employee reactions and feelings towards change been taken into account? |

**Case in Point: Identifying Causes, Not Just Symptoms**

This example highlights how one company pinpointed the cause of a problem in its marketing organization. Marketing units were not working well together, causing the sales forces they shared to be pulled in different directions. The initial thinking was that the marketing teams lacked an adequate common mechanism for coordination, although the underlying problem was that the teams had objectives and incentives that encouraged them to compete with one another rather than cooperate.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Marketing’s Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why don’t the marketing teams work together?</td>
<td>We don’t have time.</td>
</tr>
<tr>
<td>But when you do have time?</td>
<td>Our products are not related.</td>
</tr>
<tr>
<td>But you sell to a common set of customers?</td>
<td>We are all structured differently.</td>
</tr>
<tr>
<td>Would you work together if you were structured the same way?</td>
<td>No. We sell through the same sales force; I need to maximize my share of voice.</td>
</tr>
<tr>
<td>So if you win, others lose?</td>
<td>Yes. I want to sell my products, even at the expense of others.</td>
</tr>
</tbody>
</table>

Source: Boston Consulting Group
The Boston Consulting Group framework also stresses the notion that successful designs respond to three major forces that drive the economy. First, the basic nature of business is evolving: industries are becoming increasingly global, companies are depending more and more on information gathering and exchange, and value chains are deconstructing at an accelerated pace. Second, the workforce is evolving—a development marked by more highly qualified staff, increasing career mobility, and greater career expectations. Third, the route to competitive advantage has changed, hinging on achieving greater speed, leveraging capabilities, and capturing scale in corporate knowledge and costs. These forces have produced a common set of characteristics, highlighted in Figure 5 below, that can guide any organization design initiative.

---

**Figure 5: Organization Design Characteristics**

<table>
<thead>
<tr>
<th>Orientation for Interactions</th>
<th>Hybrid Structures and Overlays</th>
<th>Rewards for Performance</th>
<th>Open-Source Approaches</th>
<th>Small But Active Corporate Center</th>
<th>An Organization Built to Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design should account for all the ways people work together, including objectives, capabilities, roles in key processes, and information flows. Interactions should occur across organizational boundaries and a good design will take into account the forces beyond structure that drive behavior.</td>
<td>Successful designs will include a variety of forms to reflect different business economics across the organization. For example, the heads of some business units may require more control or power than others, and network overlays may be needed to encourage functions within the organization to work together to improve the management of common processes or share best practices.</td>
<td>Redesigns should include highly-variable incentives for individuals through performance-based programs that extend down the corporate ladder. The importance of performance-based rewards also underscores the need for mechanisms to measure performance in any new design.</td>
<td>Effective designs often include close links with suppliers, allowing customers and suppliers to be integrated, reddefining opportunities for outsourcing.</td>
<td>Well-designed organizations do not burden the corporate center with minor administrative tasks that can be better performed within business units or in a shared services center. The most effective corporate centers have the resources and capabilities to manage senior talent, disseminate best practices, and drive major change initiatives and strategy.</td>
<td>Organizational design should institutionalize the organization’s capacity to remake itself by fostering ideas that are important for future growth (but potentially disruptive to existing businesses) and by implementing checks and balances through structures and processes that allow the status quo to be questioned.</td>
</tr>
</tbody>
</table>
**Balanced Scorecard: Making Tradeoffs between Centralized and Decentralized**

The Balanced Scorecard is a model of business measurement and management designed not only to assess financial metrics that reflect past events, but also to incorporate measures related to the drivers of future performance. The objectives and measures of the scorecard are derived from an organization’s vision and strategy and view organizational performance from the following four perspectives: financial, customer (external), internal business process (operational), and learning and growth (strategic). The perspectives of the balanced scorecard may be adapted to assess tradeoffs between centralization and decentralization in the following manner:

- **Financial Perspective**—includes elements of resource allocation and scale economies. *How will the structure affect costs?*
- **Strategic Perspective**—includes elements of competence, culture, and leadership. *How will the structure affect human capital?*
- **Operational Perspective**—includes elements of process and coordination. *How will the structure affect key processes?*
- **External Perspective**—includes elements of customer service and marketing. *How will the structure affect market position?*

Each of these four perspectives can be linked to key decision points related to potential degree of centralization. By answering questions related to how structure should address these decision points and perspectives, organizations can make decisions around centralization and decentralization, as highlighted in Figure 6 below. While this presents a general example, the balanced scorecard framework is highly adaptable to individual organizations’ missions, strategies, and environments. Organizations can customize this framework by breaking their unique mission and strategy statements into relevant perspectives and then assessing the resulting decision points with targeted questions.

![Figure 6: Assessing Tradeoffs from Four Organizational Perspectives](image)

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Decision Point</th>
<th>Decentralized</th>
<th>Scale</th>
<th>Centralized</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td><strong>Scalability</strong>—Which functions realize economies of scale?</td>
<td>Small Economies of Scale</td>
<td>Large Economies of Scale</td>
<td>Overhead</td>
</tr>
<tr>
<td></td>
<td><strong>Cost Structure</strong>—What resources may be shared by all business units?</td>
<td>Charge-Back</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic</strong></td>
<td><strong>Innovation</strong>—How rapidly must the company innovate to remain competitive?</td>
<td>Low Importance</td>
<td></td>
<td>High Importance</td>
</tr>
<tr>
<td></td>
<td><strong>Culture/Values</strong>—How important is a common culture and shared values?</td>
<td>Diverse</td>
<td></td>
<td>Shared</td>
</tr>
<tr>
<td></td>
<td><strong>Competencies</strong>—What core skills should be shared by all business lines?</td>
<td>Arise from Business Units</td>
<td>Maintained at the Top</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Leadership Style</strong>—Does the desired culture favor top-down or bottom-up leadership?</td>
<td>Bottom Up</td>
<td></td>
<td>Top Down</td>
</tr>
<tr>
<td><strong>Operational</strong></td>
<td><strong>Oversight/Control</strong>—Which processes should be monitored across business lines?</td>
<td>Low Importance</td>
<td></td>
<td>High Importance</td>
</tr>
<tr>
<td></td>
<td><strong>Speed of Business</strong>—What types of decisions should be made on the line?</td>
<td>Fast Moving</td>
<td></td>
<td>Slow Paced</td>
</tr>
<tr>
<td></td>
<td><strong>Internal Networks</strong>—What functions must coordinate to accomplish goals?</td>
<td>Low Level of Coordination</td>
<td></td>
<td>High Level of Coordination</td>
</tr>
<tr>
<td><strong>External</strong></td>
<td><strong>Customer Proximity</strong>—How important is proximity of customer to the line?</td>
<td>Source of Advantage Near Market</td>
<td>Source of Advantage Internal</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Market/Landscape</strong>—How does the company gain customer knowledge?</td>
<td>Highly Market-Driven</td>
<td></td>
<td>Slightly Market-Driven</td>
</tr>
<tr>
<td></td>
<td><strong>Competitive Advantage</strong>—Where does the company find competitive advantage?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Mission</strong>—How does each function contribute to the company’s mission?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Booz Allen Hamilton’s “Natural Business Units” (NBUs) approach is an organization design framework that involves bringing business units into closer alignment with their essential strengths and with ever-changing market demands. Organizing around natural business units and using NBUs to make decentralization decisions allows a company to be more customer-focused and agile through simplification. Traditional business unit configurations can hamper progress because they approach market challenges from an inside-out or top-down perspective. Companies should be structured around capabilities rather than a traditional definition of business lines or assets, as highlighted in Figure 7 below:

---

**Figure 7: Transitioning from Traditional Business Units to Natural Business Units**

<table>
<thead>
<tr>
<th>Traditional Model: Managing Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Built around assets</td>
</tr>
<tr>
<td>• Focus on managing numbers</td>
</tr>
<tr>
<td>• Hierarchical</td>
</tr>
<tr>
<td>• Independent parts</td>
</tr>
<tr>
<td>• Reactive</td>
</tr>
<tr>
<td>• Command and control</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NBU Model: Managing Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Built around capabilities</td>
</tr>
<tr>
<td>• Focus on creating value</td>
</tr>
<tr>
<td>• Networked</td>
</tr>
<tr>
<td>• Interdependent</td>
</tr>
<tr>
<td>• Responsive</td>
</tr>
<tr>
<td>• Empowered</td>
</tr>
</tbody>
</table>

---

To achieve this transformation, businesses should be organized from the outside-in, or from a customer back perspective. Organizations can use the NBU litmus test, detailed in Figure 8, to identify whether or not they have the right business units.

---

**Figure 8: NBU Litmus Test**

### Identifying Natural Business Units

1. Are there identifiable operations? Do they have significant scale?
   - Customers
   - Employees
   - Capabilities
   - Assets
2. Are there identifiable markets for products and materials?
   - External customers/suppliers
   - Arm’s length prices, competitively set
   - Industry quality/performance standards
   - Revenues
3. Are there “freestanding” competitors with comparable scope?
   - Independent companies
   - Freestanding subsidiaries of parents
4. Can we define accountabilities suitable to a freestanding company, without significant artificiality?
   - P&L
   - Balance sheet
   - Capital budget
5. Is this an indivisible unit, or is it a composite of smaller natural business units?

### Characteristics of NBUs

- Are structured around a clear, demonstrable value proposition—customers are willing to exchange money for goods and services
- Have authority and responsibility for developing and executing either all or key portions of strategy
- Have line authority to make decisions and execute strategy
- Have control over resources necessary to implement their strategies
- Have accountability for revenue and profitability
In addition to the litmus test for determining NBUs that will enhance organizational agility, Booz Allen also outlines a five-step framework to incorporate NBUs into a successful overall organization design. The process begins with an analysis of who the customers are, what they need, and what they are likely to pay for. After a company has defined the appropriate businesses, it develops a structure and defines its relationship to the corporate parent and to the supporting capabilities essential to operations. Finally, the linkages must be developed that glue the company together. This five part framework is detailed in Figure 9 below:

1. **Define the Business**
   - Identify/anticipate customer needs
   - Develop and execute NBU strategy
   - Build capabilities
   - Develop talent
   - Improve business performance

2. **Design NBU Structure**
   - Develop a structure that serves specific business needs

3. **Define Relationship with Global Core**
   - Formulate a shared vision, set of values, corporate identity, and coherence
   - Exercise performance monitoring and coordination
   - Minimize the cost of capital and fund growth
   - Ensure corporate-wide access to world-class, low-cost capabilities

4. **Define Business Services**
   - Provide cost-effective, client-driven services (e.g., transactions, expertise)
   - Manage outsourcing relationships

5. **Define Linkages**
   - Apply the NBU litmus test to all elements of the corporate portfolio
   - Identify/anticipate customer needs
   - Develop and execute NBU strategy
   - Build capabilities
   - Develop talent
   - Improve business performance

Once NBUs are defined, the company should create an overall structure that serves its specific business needs. The structural options outlined on page 4 of this document will guide this process.

Linkages must be clearly thought out, and range from vision and values to specific management processes. Linkages also includes the systems for developing strategy, delegating authority, and managing performance.

In addition to a new relationship to the parent, the NBU model gives companies an opportunity to redefine corporate services, a model for delivering corporate support by combining services from headquarters and business units into a distinct, market-efficient entity, as detailed below:

- Provide cost-effective, client-driven services (e.g., transactions, expertise)
- Manage outsourcing relationships
Michael Goold and Andrew Campbell suggest that organizations use two types of tests to balance the right amount of hierarchy, control, and process in organizational structure, allowing the design to work smoothly while avoiding excessive structure that could dampen initiative, flexibility, and networking. These tests are highlighted in Figure 10 below:

**“Fit” tests**—provide an initial screen for design alternatives, revealing whether the structures support the company’s strategy, talent pool, and characteristics.

**“Good design” tests**—refine a chosen design by addressing potential problem areas, including the balance between empowerment and control.

### The Market Advantage Test

Assess a design’s fit with the organization’s market strategy and sources of competitive advantage. The test includes the three components and guiding questions depicted below:

<table>
<thead>
<tr>
<th>Component</th>
<th>Guiding Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine whether structure fits market strategy</td>
<td>Does the design reflect focus on key market segments?</td>
</tr>
<tr>
<td>Determine if structure directs enough attention to each market segment</td>
<td>Is every segment owned by at least one business unit?</td>
</tr>
<tr>
<td>Determine if structure supports key sources of market advantage</td>
<td>Does design support speed to market, solutions selling, etc.?</td>
</tr>
</tbody>
</table>

### The Parenting Advantage Test

Define corporate level (“parent”) activities that add value to the entire organization and should be allocated to the corporate center.

### The People Test

Consider key players in the organization and determine if the design provides appropriate responsibilities and reporting relationships, solidifying key stakeholders’ commitment. The two main components of this test and guiding questions are highlighted below:

<table>
<thead>
<tr>
<th>Component</th>
<th>Guiding Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine whether structure defines roles and responsibilities such that employees leverage their strengths</td>
<td>Are there employees who will forfeit power in the new structure?</td>
</tr>
<tr>
<td>Assess staffing needs</td>
<td>Have pivotal positions within the new structure been appropriately identified?</td>
</tr>
</tbody>
</table>

### The Feasibility Test

Consider the context in which the organization operates. Identify barriers to success due to any of the following constraints: government regulations, interests of company stakeholders, limitations of information systems, and corporate culture.

<table>
<thead>
<tr>
<th>Component</th>
<th>Guiding Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine whether design supports innovation and adaptation to changing environments</td>
<td>Does the design support potential new opportunities?</td>
</tr>
<tr>
<td>Identify pockets of resistance to future change</td>
<td>Does the design pose a risk of entrenchment even if priorities change?</td>
</tr>
</tbody>
</table>

### Figure 10: Fit and Good Design Tests

[Diagram showing the tests and their components]
APPENDIX: ADDITIONAL RESOURCES

This appendix provides additional resources and information for each framework presented in this report.

**JAY GALBRAITH’S STAR MODEL**

This workbook is a hands-on guide that provides managers with a set of practical tools to use when making organization design decisions. Based on Galbraith’s Star Model, the book covers the fundamentals of organization design and offers frameworks and tools to help leaders execute their strategy.

*Designing the Customer-Centric Organization*, Center for Effective Organizations, 2006
http://www.marshall.usc.edu/assets/005/5484.pdf
This teleconference deck, written by Galbraith, provides examples of how organizations can use the star model to pursue customer-centric and solutions-oriented strategies.

**BOSTON CONSULTING GROUP’S BUILDING BLOCKS FRAMEWORK**

This link provides access to the full-text article.

**BALANCED SCORECARD**

This book provides greater detail on and further implications for business inherent to the balanced scorecard methodology.

**NATURAL BUSINESS UNITS**

*Organizing for Agility: Creating Natural Business Units*, Booz Allen Hamilton, 1999
http://www.boozallen.com/publications/article/658369
This link provides access to the full-text article.

**GOOLD AND CAMPBELL’S “FIT” AND “GOOD DESIGN” TESTS**

*Do You Have a Well-Designed Organization?*, Harvard Business Review, 2002
(Due to copyright restrictions, we cannot provide a copy of this article. This document can be obtained from Harvard Business Publishing.)
This article includes examples and details regarding how organizations can conduct each test outlined in this brief.
NOTE TO MEMBERS: This project was researched and written to fulfill the research request of several members of the Corporate Executive Board and as a result may not satisfy the information needs of all member companies. The Corporate Executive Board encourages members who have additional questions about this topic to contact their research manager for further discussion. The views expressed herein by third-party sources do not necessarily reflect the policies of the organizations they represent.

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3 Barber, Felix, D; Grant Freeland; and David Brownell, “A Survivor’s Guide to Organization Redesign.”
7 Goold, Michael and Andrew Campbell, “Do You Have a Well-Designed Organization?,” Harvard Business Review (March 2002). (Obtained through EBSCOHost).