

Chapter 9

ORGANIZATION DESIGN CONSTRAINTS ON STRATEGY AND PERFORMANCE

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Abstract: This chapter provides an extension and refinement of the information processing model of organization design (Galbraith 1973, Tushman and Nadler 1978). In the paper, I suggest that organization design constrains firms' realized strategy, and thus influences organizational performance: I suggest that the choice of design becomes crucial for performance since organizations may face different functional demands that are determined by environments and strategic intentions, and since organization designs require costly and irreversible commitments.

Key words: Organization design, strategy, performance.

1. INTRODUCTION

Organization designs regulate the information flow in the organization and thereby influence its ability to adapt to changes in the environment and anticipate the consequences of policy changes in the organization. Therefore, the design of the organization is crucial for organizational performance since it influences the organization's ability to act and react effectively.

In this chapter, I propose that the design of the organization provides constraints on the behavior of the organization, specifically its strategic orientation which I refer to as its realized strategy with reference to Mintzberg (1978) and Mintzberg and Waters (1982). I view the organization as an open system in the tradition of Lawrence and Lorsch (1967), Thompson (1967), Galbraith (1973), and Tushman and Nadler (1978). According to this view, organizations gather and use information to make

informed decisions, and the characteristics of the task environment determines the need for information processing (Galbraith 1973, Tushman and Nadler 1978). The realized strategy is the organization's bet on how to adapt to its perceived environment, and the execution depends critically on accurate and timely information. Under some circumstances, namely if different organization designs provide different information and interpretation of information, alternative organization designs support different strategic orientations. Related, organizational effectiveness can be as a multidimensional construct (Gresov and Drazin 1997), and therefore the organization must trade off different strategic orientations if they are supported by alternative, mutually excluding, organization designs.

The contribution of the paper is to provide a causal theory of how the realized strategy is influenced by the design of the organization. The promise of the theory advanced here is to provide the basis for a model (or set of models) whose predictions can be tested empirically, and which separates causes and effects to allow for more complex modeling of organization designs, and their consequences. In particular, the theory I advance here suggests that organization design research can move beyond the simple moderating model in contingency theory (cf. Schoonhoven 1981) or the complex but less formal modal found in configurational approaches (Meyer, Tsui and Hinings 1993). I also expect that the theory I advance can provide a synthesis of the contingency (Donaldson 2001) and configurational (Meyer, Tsui and Hinings 1993) perspectives on design by suggesting a model of design that nests a mediation model within a moderation model.

2. ORGANIZATIONS AS INFORMATION PROCESSING SYSTEMS

Organizations can be described as information systems that are composed of human, structural, and technological elements. The information system enables organizations to reduce uncertainty about their task environment and external environment and therefore make better decisions if the design of the information system's information processing capacity reflects the underlying need for information processing (Galbraith 1973, Tushman and Nadler 1978).

The design of the organizational information system regulates the flow of information in the organization, and therefore information processing can be viewed as an antecedent to the realized strategy of the organization (Cyert and March 1963, Scott 1992 chapter 4). For example, organizations develop procedures and mechanisms for obtaining, interpreting, and communicating information, they delegate responsibility for interpreting and communicating