Strategic Organizational Design

Session 3

Why are things changing?
The Goldcorp Challenge

- Rob McEwen, CEO, Goldcorp Inc.
- Where to dig for gold?
- At MIT, heard about Linux open source software
- Idea: All geological data posted on Internet!
- $575,000 prize money for best drilling plans
- Result: 50% of targets identified were new. 80% were rich deposits. Stock up 3000% since 1993!
Why are organizational designs changing?
Radical decentralization in business

We are in the early stages of an increase in human freedom in business . . .

. . . that may be as important as the change to democracies has been for governments.
Why is this happening?

• For the first time in history, we can now have the economic benefits of large organizations...
  – economies of scale and knowledge

• ...without giving up the human benefits of small ones
  – freedom, creativity, motivation, and flexibility.
Why is this happening? (cont.)

• This change is enabled by new technologies.
  – Lower communication costs mean many people have enough information to make more decisions for themselves.

• But the change is driven by the business benefits of more people having more freedom.
  – Motivation, creativity, flexibility

- Anyone can add or change anything at any time
- Frequent contributors watch recent changes to undo or correct errors
Examples

- eBay
- InnoCentive
- ...
Societies through history

- **Bands** (Decentralized, Unconnected)
- **Kingdoms** (Centralized)
- **Democracies** (Decentralized, Connected)
Businesses in the 20th century

Small, local businesses

Large, centralized corporations

Outsourcing, Networked organizations

1900 1950 2000
<table>
<thead>
<tr>
<th>Decision-making structure</th>
<th>Total costs of communicating remote decision information</th>
<th>Actual benefits of considering remote decision information</th>
<th>All other costs (trust, motivation, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
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<td>Centralized</td>
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<tr>
<td>Decentralized</td>
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Result

Potential value of remote information

Unit cost of communicating remote information

Decentralized

Centralized

Independent

IT
How technology enables changes in organizational design

New technologies

Cheap transportation

Cheap communication

Cheap automation

For other physical and information tasks

More innovation

More tasks can be done anywhere in the world.

More education

People are more innovative when making decisions for themselves.

More knowledge work

People are better at knowledge work when making decisions for themselves.

More affluence

Less need for people to do physical work.

Basic needs are already met.

More freedom

More globalization

More intangible needs are more important

More innovation

More affluence

More freedom

More globalization

More knowledge work

Intangible needs are more important

More education

Shaded boxes indicate core argument in Malone, Future of Work
What does this mean for organizational design?

There are many new opportunities for organizational innovation.
What are examples of organizational innovation?
Conclusions

• New technologies are decreasing the costs and increasing the desirability of organizations where
  – more people make more decisions (freedom)
  – activities are more distributed geographically (globalization)
  – Intangible (non-economic) needs are more important

• Now we need to invent more organizations like this!
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