



# What Is Organization? The Evolving Answer

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*Consider how much the organizations where you live, work, and play affect your life! In this short article, Dave Ulrich reviews the evolution of organizational logic, helping each of us to better appreciate our organizations and help them to deliver value.*

Organizations shape nearly every aspect of our lives: work, health, learning, social, and spiritual. They turn personal beliefs into value created for others, individual aspirations into shared agendas, private thoughts into collective outcomes, and discrete actions into sustained patterns. Disneyland’s value of being the “happiest place on earth,” for example, creates value for my wife and me when, as guests, we see our granddaughters chortle with delight at meeting Cinderella. They turn with joyful eyes and say with glee, “Grandpa, she’s real . . . and she’s beautiful. Thank you!” Our happiness is instantly multiplied by delighting them. And so the Disney organization’s values create sustainable value for their guests (customers).

Research confirms the impact of organizations on personal experiences. In researching *Victory Through Organization*, my colleagues and I collected data from 1,200 organizational units and 32,000 individuals. We found that organization (culture, capability, workplace, process) has four times the impact of individual (talent, competence, workforce, people) on business results. Likewise, at the Academy Awards, about 20 percent of individuals who win best actor or actress are in the movie that wins best picture. In basketball, soccer, and other team sports, the team with the top scorer wins the championship about 20 percent of the time. Individuals may be champions, but teams win championships.

### What Does an Organization Look Like?

While organizations have long mattered and will continue to do so, the way we answer the question, “What is organization?” has evolved. Understanding this evolution will help leaders to create the right organization, employees to manage their

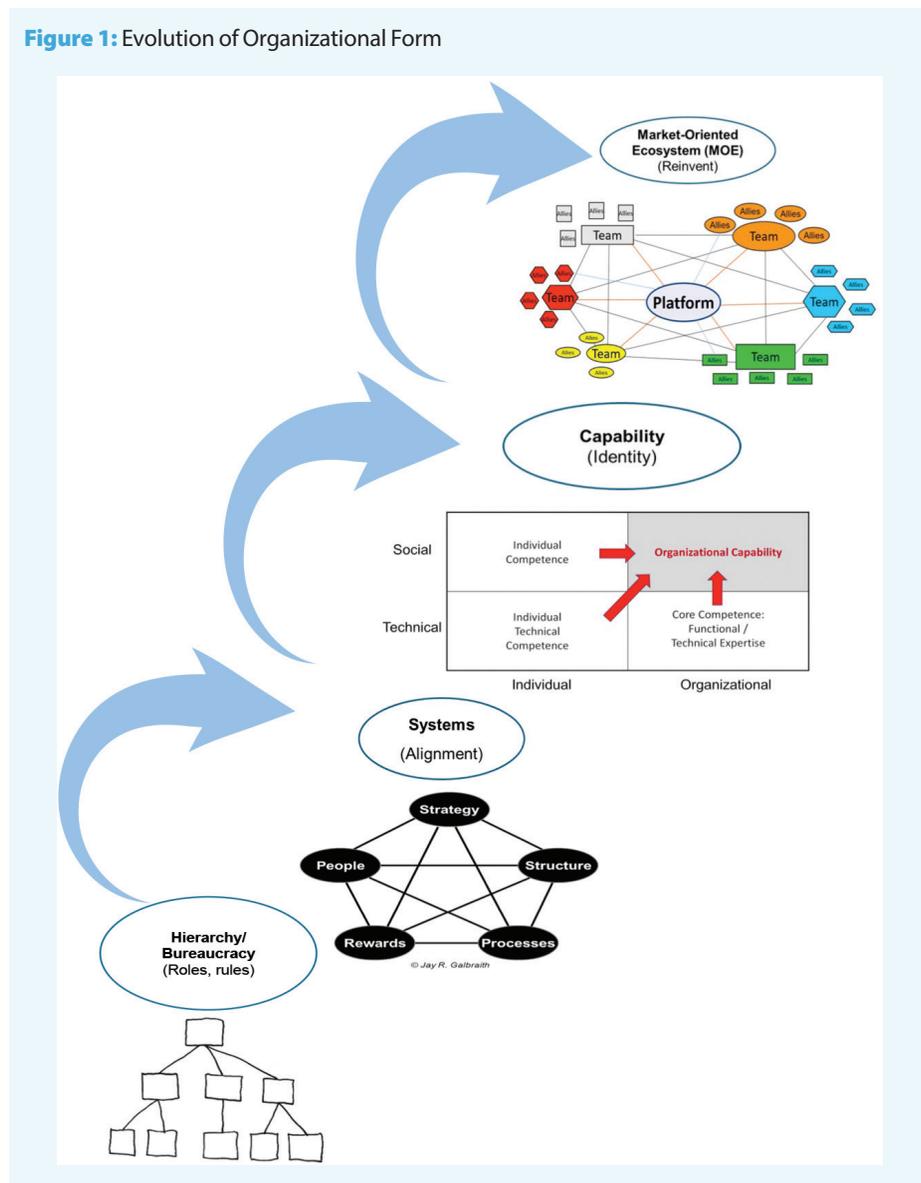
careers, customers to partner with their suppliers, and investors to evaluate the organization.

Figure 1 provides an overview of the evolution of organizational thinking. For decades, if asked to draw an organization, respondents would produce some version of **hierarchy** that looked like a pyramid. This logic provided stability, career mobility, and process improvements.<sup>1</sup> Leaders clarified authority by defining roles, improved processes with reengineering, and determined career paths through specialization.

Next, organizational logic pivoted toward a **systems** approach in which different organizational processes (strategy, structure, rewards, people) were aligned to deliver results.<sup>2</sup> Using this logic, leaders made sure that organizational processes enabled their strategies and interacted to deliver their products.

This organizational thinking then morphed into a **capability** logic in which the organization is not viewed as a structure or system, but as a collection of capabilities: what an organization is known for and

Figure 1: Evolution of Organizational Form



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good at doing which define its identity.<sup>3</sup> Leaders in this organizational logic are responsible for diagnosing and delivering those capabilities, like innovation, agility, customer service, information, or efficiency, to their customers. Disney's capability of delighting guests is thus the essence of its organization.

Recently, the organization species has evolved once again, and in a flurry of potential names (network, holocracy, amoeba, ambidextrous, boundaryless). Arthur Yeung and I synthesized many of these options<sup>4</sup> and coined the term **market-oriented ecosystem (MOE)**. Instead of being organized into divisions to which a chain of command allocates resources, the MOE has a platform of resources (money, people, technology) that is dedicated to market opportunities. Leaders of the MOE assign an

independent team (or cell) of employees to each market opportunity. These cells then anticipate customers' requirements and quickly respond to them.

### Moving Ahead

Understanding how the answer to the question, "What is organization?" has evolved will help leaders to prevent their organization from becoming the next Blockbuster, Sears, or Nokia, failing to adapt to shifting market conditions. Employees with a contemporary organizational logic can design their careers to match their organization's requirements. Customers can partner with evolving organizations to fulfill their individual needs. Investors can discover and invest in the organizational intangibles which create sustained value.

Organizations affect nearly every area of our lives. Knowing what organization is today allows all stakeholders to make better, more informed choices about getting the best out of their organizations. ■



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He has written over thirty books and hundreds of articles on organization, leadership, talent, and human resources. He has earned numerous awards and recognitions and presents widely on these topics. dou@umich.edu

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## Endnotes

1. See the work of Alfred Chandler, Max Weber, or Mike Hammer.
2. See STAR model by Jay Galbraith, 7-s or organization health by McKinsey.
3. For more on organizational capability see: Dave Ulrich and Dale Lake. 1990. *Organizational Capability: Competing from the Inside/Out*. New York: Wiley.
4. Arthur Yeung and Dave Ulrich. 2019. *Reinventing the Organization: How Companies Can Deliver Radically Greater Value in Fast-Changing Markets*. Boston: Harvard Business Press.