I wrote my dissertation on organization design and have been teaching the topic on and off for more than 20 years now. Despite my familiarity with the subject, I had been certain that our understanding of organizational structure had progressed little since the 1970s. But Puranam’s compact volume has convinced me otherwise, and I would encourage anyone interested in organization design or corporate strategy to read it.

Although Puranam incorporates a wide range of research from economics, psychology, organization theory, and sociology into his book, his approach to this subject follows in the intellectual footsteps of the Carnegie School. His central question is how might a boundedly rational social planner best divide and integrate activities to achieve a set of group-level goals? This question would interest practitioners and professors alike, but the presentation style appears made for academics. *The Microstructure of Organizations* opens by defining a large number of terms and detailing the assumptions underlying the research. It then proceeds to answer this question systematically, primarily by drawing on more than two dozen articles that Puranam has written over the past 15 years with a number of coauthors.

Most of the underlying research involved the use of analytical models and/or simulations to develop a theoretical understanding of organization design, though some of the articles involved the analysis of archival data. But the book does not delve into the details of these prior papers. Instead, it reports and uses the insights and conclusions from these papers to build an overarching perspective. Even those familiar with the individual articles will therefore find the book useful because it connects the prior research in ways not otherwise apparent.

I found the middle chapters—dealing with the core tradeoffs of organizational design: the division of labor and the integration of effort—most thought-provoking. For example, the idea of epistemic interdependence, that interdependence primarily matters in organizational design when one actor must anticipate what another will do, struck me as quite profound. The idea of classifying incentives in terms of their breadth and the insight that broader incentives would introduce actor-level interdependence (because their rewards depend on the actions of others) also seems both subtle and powerful. I am still digesting many of these ideas.

The main weakness of the book, from my perspective, stems from the combination of a very abstract approach to the theory with a relative paucity of examples relevant to corporate strategy. The book does contain a large number
of examples, but most concern the division of labor and interactions among small groups of individuals—teams if you will. For corporate strategy, the important choices occur at a more macro level: How should the firm choose between a functional or divisional structure? If divisional, on what basis should it organize its divisions—by products, by customers, by geography? Applying the principles of organization design to corporate strategy has been left as an exercise for the reader.

I also found myself wishing that the book had gone further in its discussion of novel organizational designs. Although the penultimate chapter provides a fairly comprehensive accounting of all of the ways in which innovation might occur and briefly mentions some examples of organizational innovation, I would have liked to have seen some detailed case studies. For example, in mentioning Oticon’s “spaghetti” organizational structure, it would have been useful to translate this design into its implications for the division of labor, the integration of effort, and the delegation of authority, with a discussion of what Oticon probably gained (and lost) in this innovation.

Although I found the book an important step forward in our understanding of organization design, it also reminded me how much more we need to learn. Over the past 30 years, advances in information technology have dramatically changed organizations’ ability to deliver the relevant information to those on the front lines, to aggregate information in real time, and to monitor performance at the individual level. These innovations have led to large changes in how many firms (and communities) organize themselves and delegate authority. Yet relatively little research has informed our understanding of how these changes should influence organization design. I am hopeful that The Microstructure of Organizations will inspire others to follow in Puranam’s footsteps.

Olav Sorenson
Yale School of Management
New Haven, CT 06520
olav.sorenson@yale.edu