DESIGNING ADAPTABLE ORGANISATIONS FOR TOMORROW'S CHALLENGES

"The overarching theme of this research is that large complex organisations have to master a core tension in their organisation design – to balance agility and scale. Organisations have always had to make this trade-off, but the difference today is that they can't afford to sacrifice either. Organisations need to be designed in a way that enables both agility *and* scale, at the same time."

Amy Kates, Greg Kesler and Gillian Pillans, Report Authors

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EXECUTIVE SUMMARY

"WE SEE A COMMON RESPONSE, WHICH IS TO CENTRALISE DIGITAL ACTIVITY IN ORDER TO DRIVE IT FROM THE TOP TO GET FOCUS. BUT WHERE THE ISSUES ACTUALLY ARISE IS DEEP IN THE ORGANISATION AT THE CUSTOMER INTERFACE. THIS CAN LEAD TO A LOT OF TENSION BETWEEN THE ACTIONS ORGANISATIONS TAKE TO DEVELOP SOLUTIONS CENTRALLY, AND THE REALITY OF HOW THEY NEED TO RESPOND DIFFERENTLY TO THEIR CUSTOMERS ON THE GROUND."

Chris Worley, Professor of Strategy and Strategy Director, CLEO at Neoma Business School

1. The context for organisations today is one of complexity, interconnectedness, and digital disruption. Large global organisations have to maintain competitiveness by achieving a balance between pursuing growth, innovation, and responsiveness to customers on the one hand, and maximising efficiency and the benefits of operating at a global scale on the other. They also have to rethink business strategies and operating models as we shift towards a digital economy. Having an effective organisation design that allows firms to sense and respond rapidly to market changes is an important source of sustainable competitive advantage. Organisation design is a critical capability that organisations need to build in order to be adaptable in the face of today's – and tomorrow's – challenges.

2. Organisation design involves configuring structures, processes, reward systems, and people practices and policies to create an effective organisation capable of executing the business strategy. Organisation design has to start with the business strategy, and is about much more than structures and organisation charts. It recognises that organisations are dynamic systems, and all elements of the design have to work coherently together to deliver the strategy. The complexity of the organisation design needs to reflect the complexity of the business strategy: an effective design cannot be more simple than the strategy it has to enable.

3. Continuous change is now the norm for most organisations. 89% of respondents to our survey said their organisation had either recently reorganised or had a reorganisation underway; 68% expect a significant business restructure in the next two years. The implication is that organisation design is a skill that all businesses need to develop internally: in this context the organisation design needs to be kept under ongoing review.

4. Organisation designs are typically highly complex. Virtually all large organisations operate some form of matrix, and work gets done as much through lateral management processes, networks, and forums that cross organisational silos, as through the vertical hierarchy. These lateral connections need to be purposefully designed with as much care as the operating units of the organisation.

5. The fundamental design issue for organisations today is how to resolve a core tension: balancing the need for agility and responsiveness to customer needs, with achieving the benefits of operating at global scale. This is not a question of choosing one or the other. Organisations need to keep agility and scale in balance in different parts of the organisation. This means making informed choices about which activities to devolve to local markets in order to stimulate local innovation, and which should be led centrally in order to achieve specialisation and scale. Three key elements of organisation design can be deployed to address this tension:

   a. Building networks and lateral connections that cut across structural boundaries.

   b. Fostering an 'enterprise' mindset that puts the longer-term needs of the organisation ahead of the more immediate concerns of individual business units or functions.

   c. Rethinking the role of the centre, from 'centralised' to 'centre-led'. The centre becomes an enabler that builds expertise and makes connections across organisational boundaries, not just an overhead.

6. Our survey showed that building digital capability is the top organisation design topic for large organisations currently,

"NO ORGANISATION DESIGN IS EVER GOING TO BE PERFECT. YOU ARE ALWAYS TRADING THINGS OFF. THE KEY IS TO IDENTIFY THE MOST IMPORTANT GAIN YOU WANT TO MAKE IN REDESIGNING THE ORGANISATION. YOU WILL INEVITABLY MAKE COMPROMISES BY FOCUSING ON THAT PRIORITY, BUT WELL-DESIGNED COLLABORATION MECHANISMS SUCH AS LATERAL PROCESSES, NETWORKS AND PLANNING FORUMS CAN HELP OFFSET ANY POTENTIAL LOSSES."

Nick South, Partner and Managing Director, The Boston Consulting Group

with two-thirds of survey respondents agreeing that finding the right way to organise the digital components of their organisation was a top priority. It is also one of the most difficult design challenges, as it has the potential to span every aspect of the organisation and business model, including relationships with external partners and internal processes and connections. We discuss the different strategies that organisations have adopted, and illustrate them with examples from our research.

7. We consider five 'activators' that companies need to attend to in order to achieve a design that not only enables the business strategy, but also works effectively in practice. They are:

   a. Making sure that each layer in the structure is uniquely value-adding, thereby reducing complexity and speeding up decision making.

   b. Creating innovation and execution networks to enable collaboration and build agility into the design.

   c. Designing business handshakes that set interlocked plans between key players in the matrix, and define what results will be delivered and how.

   d. Defining power, governance and decision making mechanisms that strike the right balance between global, local and functional influence.

   e. Developing matrix-ready leaders with the skills and mindsets to make the operating model work.

The activators help establish the right connections between businesses and functions, allow the right conversations to take place to manage the ongoing performance of the business, and enable the right know-how to be built.

8. HR can play a more central role in building organisation design capability across the organisation and making sure leaders give sufficient attention to organisation design when determining strategy and implementing change. We find that it is an underdeveloped capability for the function.