

THE LATERAL ORGANISATION: A SOLUTION FOR MANAGING COMPLEXITY

A core objective for organisations looking to survive and thrive in today’s complex, rapidly changing business environment is to balance a core tension, that between agility and scale. Agility means building the capacity to sense and respond rapidly to changing customer needs, to make timely decisions, and to reallocate resources quickly as circumstances change. Agile organisations are able to deliver high performance over the longer term as they are better equipped than their competitors to respond to changes in their market. Scale means being able to realise the synergies that arise from specialisation and economies of scale. Large, complex global organisations need to create an organisation design that enables them to achieve both agility and scale, at the same time, in the same organisation.

So what tools do we, as organisation designers, have to enable organisations to achieve these seemingly incompatible objectives? One key strategy for bringing greater agility into the design of a complex, matrix organisation is to develop proficiency in developing and operating the **lateral organisation**. In spite of what the organisation chart may suggest, the reality of how work gets done in large, complex businesses is that processes and work projects must cut across organisational boundaries and silos. Explicitly designing the lateral organisation to facilitate the flow of information and work across boundaries can be a way of bringing greater flexibility and adaptability into the organisation design.

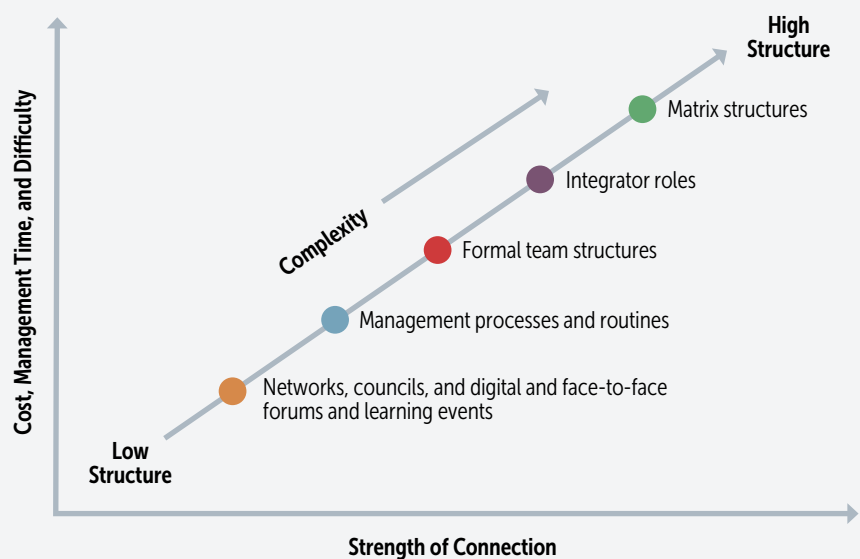
- Focusing on lateral design means companies can respond quickly to strategy shifts without having to restructure every time, building agility into the organisation.
- Lateral structures can be temporary or permanent. Applications include carrying out a particular product- or solution-development project, bringing a product to market, or to build, maintain and evolve a solution for a customer or market segment. Teams can be formed and reformed as needs dictate and as priorities and opportunities shift.
- Lateral connections don’t spontaneously occur. They must be explicitly designed, with the same rigour as the vertical structure. The networks, teams and processes that form part of the lateral organisation need to be set up and managed in a systematic way.

FIVE TYPES OF LATERAL CAPABILITIES

Jay Galbraith identified five types of lateral capability that can help an organisation to achieve the adaptability it needs to respond quickly to changes in the business environment. These capabilities sit along a continuum, reflecting the degree to which they are formalised.

- 1. Networks** – interpersonal relationships that co-ordinate work informally. For example, a multinational FMCG business operates an informal network of 60 analytics experts globally who contribute to analytics projects.
- 2. Management processes** – move decisions and information through the organisation in a formal flow. For example, the capital allocation process determines which investments bring greatest potential benefit for the overall organisation.

Figure 1: Lateral capabilities sit on a continuum



Source: Adapted from Galbraith, 2002

3. **Teams** – more formal cross-unit structures bringing people together to work interdependently and share collective responsibility for outcomes. For example, a cross-functional team to develop and commercialise a new product line.
4. **Integrative roles** – co-ordinating or boundary-spanning roles that orchestrate work across units. For example, a Chief Digital Officer who's charged with developing and rolling out a digital strategy in conjunction with business leads.
5. **Matrix structures** – formalise dual or multiple reporting structures in order to manage the conflicting needs of different dimensions of the organisation. For example, a head of Marketing for France would report both to their functional lead – the CMO – and the regional business head for Europe.

Networks are one of the most important tools for increasing flexibility in the organisation design. Increasingly we see that, rather than centralising activities, companies are using formal networks to coordinate activities across the organisation. This allows them to reap the benefits of scale while retaining the flexibility to deploy talent to meet specific business objectives. Here are some key points to consider when designing networks:

- Different leadership capabilities are required – the ability to foster connections, influence and sell ideas outside the formal chain of command. Look for these characteristics when appointing the key players in the network.
- Even though networks are more informal, there is still a need for infrastructure, such as budgets and other resources, objective setting, performance measurement and clear decision authorities and processes.
- Lateral connections and networks can be over-used. The benefits of collaborating across boundaries need to outweigh the increased complexity that's involved in coordinating work across multiple teams. You have to review the impact and effectiveness of networks regularly and take action when they become unwieldy.

You can learn more about these topics in recent CRF reports including our 2018 report [Designing Adaptable Organisations for Tomorrow's Challenges](#), our 2015 report [Organisation Agility](#), and our 2013 report [Emerging Approaches to Organisation Design](#).