crfresearch

CORPORATE RESEARCH FORUM

SPEED READ >>>

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

Sponsored by:

KPMG

OrgVue
By CONCENTRA

01 THE CONTEXT FOR ORGANISATION DESIGN

We live in a rapidly changing, digitally-enabled, complex, global, and highly competitive world. Organisations, like people, are faced with the challenge of rapidly adapting to this new world in order to survive and thrive. Fortunately, just like people, organisations are complex, adaptive organisms capable of making needed adjustments. But to successfully adapt, organisations need to develop capabilities, processes, and structures to sense changes in their environment and to configure the organisation in a way that builds and sustains competitive advantage.

Organisation design is an essential element of creating a business that's capable both of delivering results today and adapting to remain competitive in today's complex context. As such, it is critical that HR professionals build organisation design capability in order to execute business strategy and to ensure the business's adaptability in the face of today's and tomorrow's challenges.

The purpose of this Speed Read is to examine organisation design as an essential piece of the HR practitioner's tool kit. We examine the context for organisation design, and methods for designing and activating an effective organisation model. We explore the core organisational tension between agility – the capacity to sense and respond to changing customer needs - and scale – realising the benefits of specialisation and global consistency. We conclude by applying the principles to some key current strategic challenges and making recommendations for the practices, skills, and capabilities needed to execute effective organisation design in your business.

THE CONTEXT FOR ORGANISATION DESIGN

Today's organisations operate in a context of rapid and continuous change, digital disruption, and complexity.

- **Rapid and continuous change:** Our survey found that 89% of organisations had undergone a significant business restructure in the past year, and 68% were planning a significant restructure over the next two years. This constant change means organisations need to change how they approach organisational change – moving away from a slow, unfreeze-change-refreeze mentality towards developing the capacity for continuous change in line with evolving business strategies.

- **Digital disruption:** 'Digital' has many meanings. For some organisations digital disruption is so fundamental that it requires rethinking the entire business model. For others, it can refer to efforts to improve customer engagement through digital channels, to digitising products and services, to building digital platforms or an e-commerce business, or to digitising the supply chain or internal processes. Whatever the particular digital challenge, the general trend of digital disruption has elevated organisation design as a priority for executive teams, as optimising digital strategy is key to remaining competitive in today's business context.

- **Complexity:** Today's world is global and highly interconnected, yet local contexts remain important. The challenge of effectively balancing the tension between local market adaptability and global economies of scale in the same organisation is not new. But in today's context, neither can be sacrificed. Agility and scale must be achieved at the same time, which requires a complex, but purposeful, organisation design.

02 DESIGNING AND ACTIVATING AN EFFECTIVE ORGANISATION MODEL

Organisation design, as defined by Jay Galbraith, involves *"configuring structures, processes, reward systems, and people practices and policies to create an effective organisation capable of executing the business strategy."*

Organisation design should be a deliberate process, and it must begin with the business strategy, centred on and reflecting it.

Galbraith's **STAR Model** sets out the key elements that need to be addressed in organisation design.

The STAR Model draws attention to how strategy, structure, process, people practices, and metrics/rewards interact systematically to deliver the business strategy. Organisation designers should always be aware of the interdependence of the elements and beware unintended consequences that may occur when one element of the system is changed without careful consideration of the change's impact on other elements.

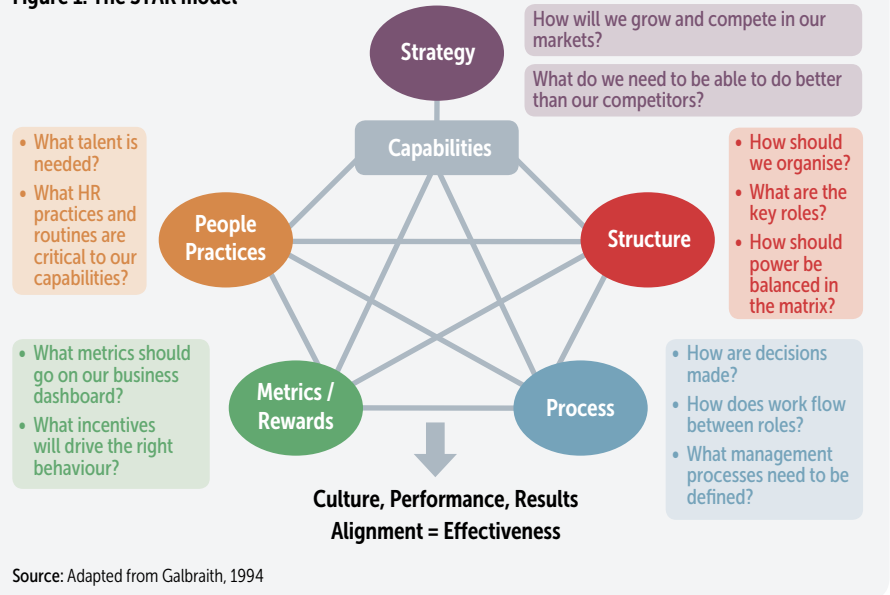## DEFINING THE GLOBAL OPERATING MODEL

Before embarking on detailed design, the organisation must define its global operating model, which is the operational design that makes it possible to enact the business strategy.

Companies have three options when deciding along which dimension to organise their operating model:

1. Geographic market units (regions, countries, or country clusters).

2. Global business units (products, brands, categories, or customer segments).

3. Global operating and support functions (R&D, supply chain, marketing, HR, IT, finance, etc).

However, companies must also take into consideration additional elements of complexity:

Figure 1: The STAR model

Strategy — How will we grow and compete in our markets? / What do we need to be able to do better than our competitors?

People Practices — • What talent is needed? • What HR practices and routines are critical to our capabilities?

Structure — • How should we organise? • What are the key roles? • How should power be balanced in the matrix?

Metrics / Rewards — • What metrics should go on our business dashboard? • What incentives will drive the right behaviour?

Process — • How are decisions made? • How does work flow between roles? • What management processes need to be defined?

Capabilities

Culture, Performance, Results Alignment = Effectiveness

Source: Adapted from Galbraith, 1994

- **The degree of integration across the business portfolio.** i.e. the degree to which different parts of the business share resources and operate common processes and standards; designs are likely to be more complex in operating models with less integration.

- **The time horizons for growth.** Is the business… focused on defending and extending core business (Horizon 1)? Focused on creating new products or adapting a successful formula for new markets (Horizon 2)? Focused on an emerging business (Horizon 3)? Tensions will emerge between managing the core business and an emerging business simultaneously, and extra care to the detail of organisation design should be given in these situations.

- **Matrix management.** Matrices are hard to manage well and often result in slow decision processes and unclear accountabilities; therefore, design should be very deliberate. Designers should focus on maximising **rewarded complexity,** or design complexity that mirrors the complexity of the business strategy, and

minimising **unrewarded complexity,** or complexity for complexity's sake. Designers should avoid unnecessary layers, duplication, and ineffective management, processes, and metrics.

ACTIVATING THE OPERATING MODEL

Amy Kates and Greg Kesler have developed the **Five Activators** framework to guide holistic thinking about the organisation design choices required to bring an operating model to life. Note that activation is an ongoing process of checking, refining, testing, and course-correcting.

The five activators are interdependent- they work together to ensure structure, processes, measures of success and behaviours are aligned and reinforcing.

1. **Unique Value-Adding Layers** – The fewest possible layers, each of which adds value, will reduce complexity and enable delegation and faster decision-making. Collaboration across the hierarchy, and between global and regional units, is key.

Figure 2: The Five Activators

Source: Adapted from Kesler & Kates, 2016
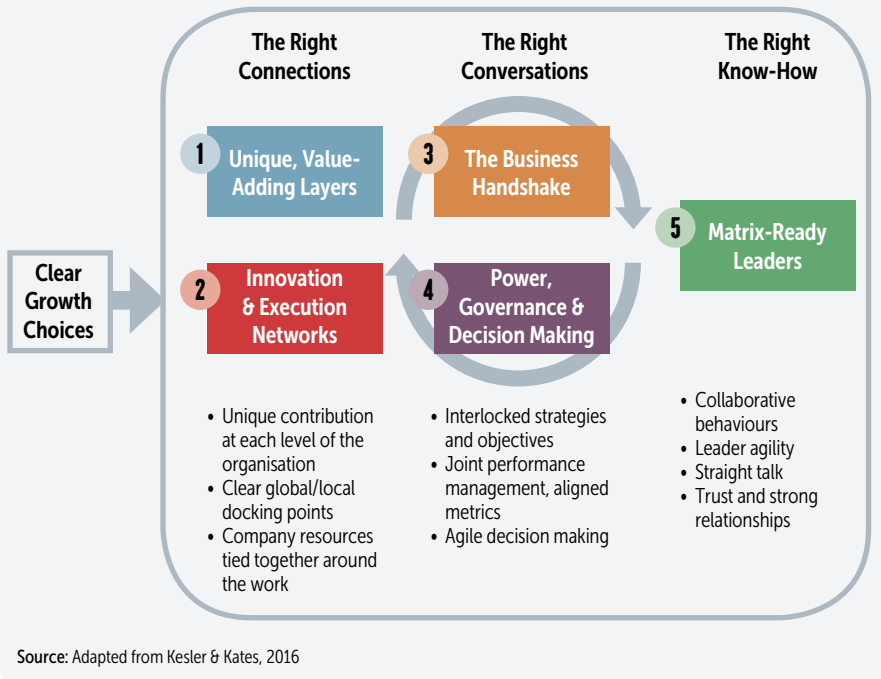
2. **Innovation and Execution Networks** – Networks, rather than centralised activities or reporting lines, are increasingly being used to coordinate activities across the organisation. Networks may be more informal than fixed hierarchies, but still require infrastructure, careful design, and unique leadership capabilities. Designers should be aware of two types of networks – **execution networks** which consist of roles in the organisation that need to work together to deliver on initiatives, and typically less formal **innovation networks** which connect across boundaries to solve problems or create options and solutions.

Taken together, Activators 1 and 2 help build the *right connections* into an organisation.

3. **The Business Handshake** – This is an agreement across organisational boundaries on what results will be delivered and how; it formalises strategies and plans between key players in the matrix and establishes performance management expectations that drive results over time.

4. **Power, Governance, and Decision Making** – Management forums – tasked with making enterprise and operating unit decisions – also need to be designed. Forums should function across horizontal boundaries and should provide clear direction for business units.

Taken together, Activators 3 and 4 help ensure the *right conversations* take place within organisations.

5. **Matrix-Ready Leaders** – Leadership within a complex matrix requires learning agility, influencing skills, power-sharing capabilities, and being able to deal with tensions related to competing priorities. Leadership roles need to be designed with these leadership skills firmly in focus and leadership development needs to align with this model of leadership.

Activator 5 helps ensure the *right know-how* is deployed within the organisation.

03 THE CORE TENSION: BALANCING AGILITY AND SCALE

The key organisation design challenge in large, complex organisations is how to balance agility and scale. The challenge is not new, but in today's business context it is imperative that organisations do both effectively, at the same time.

> **Agility** refers to the ability to sense and respond rapidly to changes in the competitive environment, including the ability to rapidly reallocate resources and to make decisions quickly as circumstances change.
>
> It is important to distinguish between *enterprise agility* (the ability to rapidly redeploy resources at the broader organisational level) and *market agility* (the ability of local business units to rapidly adapt to local needs), in order to clarify your focus when creating an organisation design.
>
> **Scale** refers to the synergies that come from specialisation and reach.
>
> Organisations must balance agility and scale effectively in order to compete and thrive in today's business environment.

There are three key organisation design elements to focus on in order to strike the right balance between agility and scale.

1. **Building networks/lateral connections.** Companies must be proficient in developing and operating a 'lateral organisation' in which processes and projects cut across structural boundaries. Lateral capabilities – which include networks, management processes, integrative roles, and matrix structures - should be built with the same rigour as vertical structures, with formal authority and appropriate accountabilities embedded. Advantages of lateral structures are that they can be temporary or permanent and that they allow quick responses to strategy shifts, thus building agility into the organisation. Learn more about lateral structures [here](#).

2. **Fostering an enterprise mindset.** This means putting the longer-term needs of the enterprise ahead of more immediate concerns around performance of individual business units or functions. This includes rethinking reward practices to incentivise capabilities required by the operating model.

3. **Rethinking the role of the centre: from centralised to centre-led.** The role of the centre becomes an enabler of the business strategy by building networks, leading cross-organisation processes, and creating pathways for the flow of information and collaboration. The 'centre' does not have to be geographically bound and can operate virtually.

04 APPLYING THE PRINCIPLES OF ORGANISATION DESIGN TO TODAY'S STRATEGIC CHALLENGES

CHALLENGE: DEVELOPING DIGITAL CAPABILITY

The CRF survey found that developing digital capability was top of the list of organisation design topics that were most relevant to their business (41% cited building digital capability, followed closely by designing for both agility and scale at 39%). Developing digital capability is also one of the most difficult organisation design challenges because it is so comprehensive in its reach, potentially touching on every aspect of how the organisation operates.

Key organisation design questions around organising for digital include:

1. What is the appropriate organisation for digital: centralised, centre-led, or devolved?

2. Do we need to appoint a Chief Digital Officer (CDO) to lead digital activity cross-functionally? If so, what is the CDO's focus (commercial, technical, being the voice of the customer)? Is the CDO the owner of the technology platform, or an integrator for teams that are embedded in business units?

3. What are the forums for debating and agreeing digital strategy?

4. How is success measured? Who is responsible for delivering commercial results?

CHALLENGE: SHIFTING FROM PRODUCT- TO SOLUTIONS-DRIVEN BUSINESS MODELS

In the B2B economy, we are seeing a business-model shift from selling standalone products to solutions- and services-based models. The revenue model, too, is shifting, from one-off product purchases to service contracts.

Key organisation design challenges in moving towards a solutions-driven business model include:

1. How to organise the platform or solution- who owns it? How do product, service, and customer teams work together? How are accountabilities divided up?

2. Determining what new capabilities are required- for example, in solutions selling, in partner management, in refocusing innovation, and in becoming more customer-centric.

CHALLENGE: GROWING THE NEW VS. OPTIMISING THE CORE

Established organisations wishing to grow through innovation must achieve scale and operational efficiency (optimise the core) while simultaneously finding new sources of growth through innovation (growing the new).

Organisation design choices will centre on deciding where innovation sits, how it is led, how it is connected to the core business, and whether innovative business models follow different processes and governance than the core business.

If considering adopting a different organisation model for innovation, there are several potential organisation forms, including:

1. **Ambidextrous organisations,** in which a separate operating unit is created for emerging businesses. The unit is structurally independent, but still integrated into the existing senior management hierarchy.

2. **Networked organisations,** which build task and knowledge networks with other companies to supplement the organisation's own capabilities. They are flexible, agile, and may be temporary in nature.

3. **Incubators, internal venture funds, and other innovation-funding processes,** which may be built internally to allow investment and experimentation within the organisation.

05 RECOMMENDATIONS

1. **Start with the business strategy.** Have a clear strategy that is understood and widely communicated across the organisation, then make organisation design choices to reinforce the strategy. Change and evolve as needed.

2. **Develop a process or model for organisation design.** Move beyond the boxes and lines of the organisation chart; define a process that takes a systems view incorporating all elements of the STAR model.

3. **Focus on 'rewarded' complexity.** Avoid unnecessary layers and duplication; focus on creating connection points across the organisation to enable execution of the business strategy. Make sure design changes do not add unnecessary complexity.

4. **Make sure your organisation is investing in developing matrix-ready leaders.**

5. **Take the customer's perspective.** Think about how the customer experiences your organisation design, and whether this can be simplified in order to increase organisation agility.

6. **Consider whether you need to invest in building organisation design capability in your organisation.** Organisation design can provide a means of building competitive advantage and presents an opportunity for the HR function to add value. However, our research found that organisation design is an underdeveloped capability for the HR function. Only 39% of respondents to the CRF survey felt they had strong organisation design capability within HR, and only 52% agreed or strongly agreed that business leaders in their organisation believe HR is prepared to support them in solving organisation design issues. With business strategies rapidly shifting in today's context, there is a strong case for building up organisation design capability in order

to meet the demands of continual adjustment. In our experience, most organisations need to raise their game in this area.

What skills and capabilities do HR leaders need in order to play a more instrumental role in organisation design? Specific areas to focus on are:

- **Building business and strategic understanding** in order to diagnose issues and design potential organisation design solutions.

- **Developing expertise in the 'technical' elements of organisation design** such as organisation design theories, models and frameworks.

- **Communications skills and stakeholder management** to build credibility and influence with key stakeholders in the organisation, and to navigate organisation politics.

- **Change and project management.**

HR can also play a key role in helping build organisation design capability more widely across the organisation by educating the organisation about the value of good organisation design, and making sure organisation design is an integral part of discussions around business strategy.

crf

CORPORATE RESEARCH FORUM