



ORGANISATION DESIGN FOR AGILITY

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ORGANISATION DESIGN FOR AGILITY

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We support our members in enhancing their personal capabilities and building organisational effectiveness, guiding them through topics relevant to success, identifying actionable insights and practical recommendations, and facilitating networking opportunities. Our work helps organisations and the HR function make sense of the environment in which they operate, and develop capacity to deal with continuous uncertainty.

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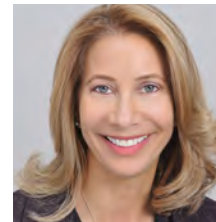
ABOUT ACCENTURE



Accenture is a global professional services company with leading capabilities in strategy, consulting, digital, cloud and security. Combining unmatched experience and specialised skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services – all powered by the world's largest network of Advanced Technology and Intelligent Operations centres. Our 700,000+ people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities.

In June 2020 Accenture acquired Kates Kesler Organization Consulting to build deep capability in operating model and organisation design. The team is now over 150 practitioners around the world.

ABOUT AUTHORS



Amy Kates is an organisation designer and co-founder of Kates Kesler Organization Consulting, which was acquired by Accenture in 2020. Based in New York City, she advises business leaders around the world and teaches programmes at the Executive School of Business, Denmark and Cornell University Executive Education. Her career began as a city planner and Urban Fellow following a Master's degree from Cornell. She has written five books on the topic of organisation design with Greg Kesler and Jay Galbraith. Amy has also served as a Visiting Fellow to the government of Singapore and is on the board of Educate!, a non-profit building business skills in East Africa.



Prateek Sinha is a recognised change agent who brings a deep understanding of complex transformations and corporate dynamics to accelerate value realisation by bridging strategy and execution. As an advisor and delivery partner, Prateek works with leaders to scope, shape, and execute change that delivers value while building organisation capability. He has profitably orchestrated, led, and delivered change in multinationals as an internal consultant (Shell, British Telecom) and external consultant (Accenture, CapGemini).



Gillian Pillans has worked as a senior HR practitioner and OD specialist for several organisations including Swiss Re, Vodafone and BAA. Prior to her HR career, she was a management consultant with Deloitte Consulting and is also a qualified solicitor. Gillian has written various CRF reports on subjects including HR strategy, organisation design and development, leadership development, coaching and diversity.

ORGANISATION DESIGN FOR AGILITY

EXECUTIVE SUMMARY

- ▶ Organisation design is a way to manage complexity in large human systems. Today, the core design challenge is to balance scale – the benefits of thinking big – with agility – the benefits of acting small. It is possible to achieve both scale and agility within the same organisation. This requires an artful combination of elements of organisation design including vertical structures, lateral connections and processes, people practices, and leadership behaviours. It means making informed choices about which activities to devolve to local markets to stimulate local innovation and customer responsiveness, and which to lead centrally to achieve specialisation, scale, and cost efficiency.
- ▶ In considering how to design the organisation for agility, we distinguish *Agile*, which is a set of project management practices, and *agility* which is an advanced management capability that allows leaders to achieve competitive advantage by making timely, effective and sustainable organisation changes. In this report, we explore three sets of tactics organisations can deploy to activate the organisation for both scale and agility. Designing the right connections up and down the hierarchy and across functional boundaries sets up businesses, markets and functions to create value together. Facilitating the right conversations means leaders can focus on the critical few decisions which have the highest impact and pose the greatest risk, and ensures objectives and expectations are aligned. Developing the right know-how helps leaders develop the skills and mindsets to collaborate across the matrix.

▶ As companies grow, most leaders make a natural set of choices to gain scale by consolidating work and harmonising processes. Staying agile while growing is harder. Some examples of the ways organisations are adapting to support agility include:

- Focusing on integrated customer solutions by bundling together products, services and software, often co-created with customers.
- Incorporating digital and artificial intelligence deeply within the enterprise infrastructure; for example, to predict unplanned maintenance and reduce cost through avoiding unscheduled downtime.
- Democratising the understanding and usage of data and building digital literacy across the entire organisation.
- Including external partners in the development and distribution of products and services, which improves quality and reduces customer churn.
- Creating centre-led hubs for critical capabilities such as data and analytics, which enable companies to simultaneously build expertise and increase productivity by deploying resources flexibly.
- Creating teams of flexible resources that can be allocated to specific business outcomes, such as scaling up a new business or incubating a product innovation to prepare for market launch.

▶ Large-scale structural change will always occur, driven by strategic shifts, M&A, or leadership transitions. However, smart leaders are focusing on fine-tuning their organisation models through purposefully activating the organisation design. They are doing this through cross-functional teams, flexible resourcing, focusing on customer outcomes, pilots, and learning loops to create a management capability to adapt and rapidly respond to customer needs.

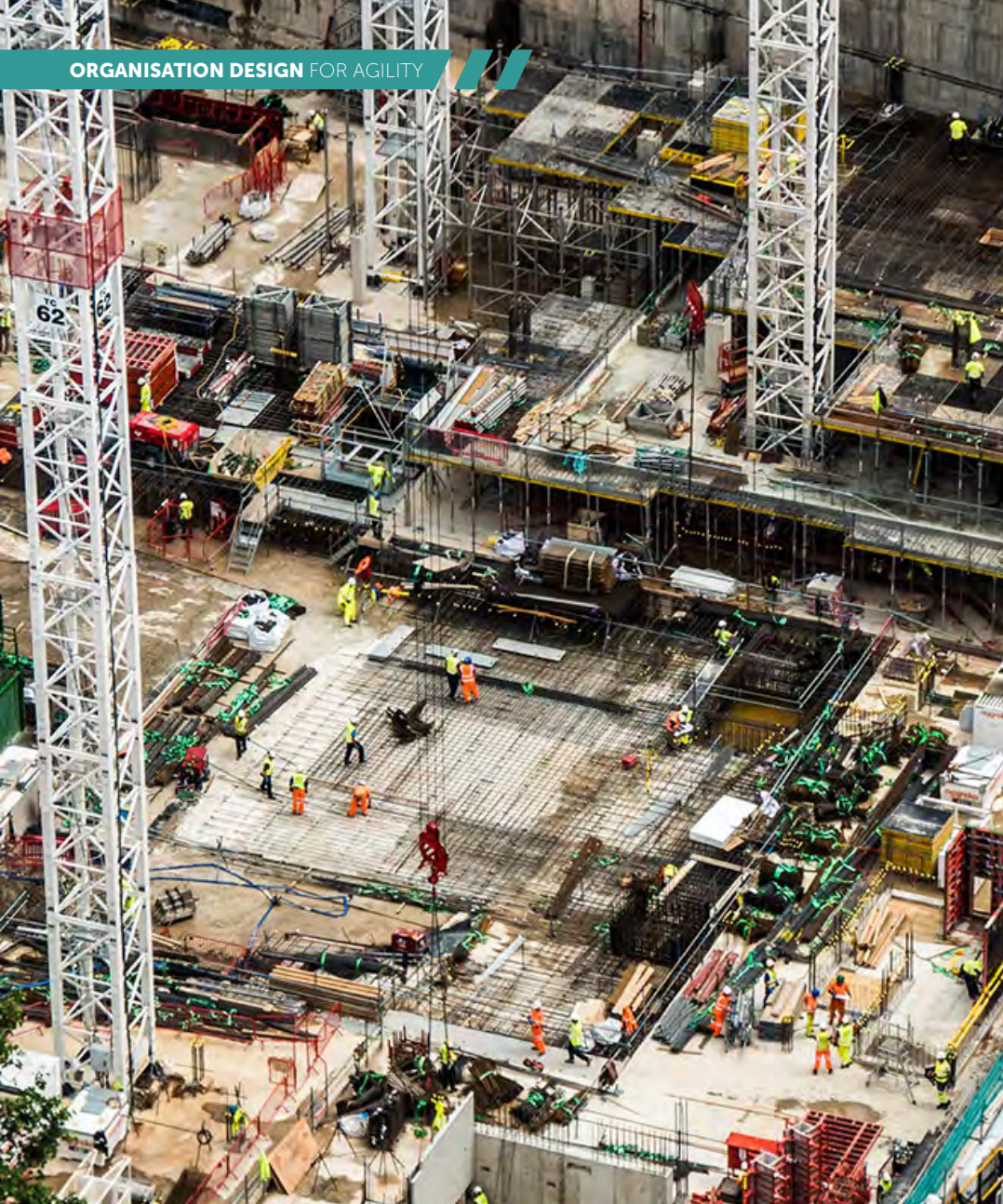
▶ Digital is ubiquitous. While it might have felt like a choice for organisations a short time ago, it is now a capability most organisations need to be successful. Leaders are using the design features outlined in this research to leverage the opportunity presented by digital, Cloud, and AI. These include developing centre-led teams and networks to link up experts across the business.

▶ Matrix management is unavoidable. Virtually all large organisations must use some form of matrix to manage complexity and promote collaboration. The key is to avoid unrewarded complexity: unnecessary structural layers, dual reporting or onerous reporting requirements that slow down the organisation.

▶ The lateral organisation, which connects teams horizontally across internal organisation boundaries, is critical to achieving both agility and scale. Agility requires organisational assets, regardless of where they sit, to be rapidly assembled to meet customer needs. Scale is achieved by bridging services, platforms, and processes across business units. Well-designed cross-boundary teams, networks, and management processes are essential. They allow people to take responsibility for results they cannot deliver on their own.

▶ There is no single 'right' answer for organisation design. There will always be a number of possible solutions. Choices must be driven by the unique business strategy and objectives.

▶ The requirement to tune the organisation continuously to promote agility is an opportunity for HR and OD professionals to build skills that add value. They need to coach leaders on how to bring together cross-functional teams and networks to solve customer problems, and adapt existing HR levers such as flexible resourcing, and performance management, to support horizontal collaboration.



Organisation design is both art and science. It is a difficult and complex subject, combining issues of strategy, capabilities, structure, relationships, processes, and people. The solution is different for every organisation and must be driven by the unique business strategy and objectives. There will always be a number of possible solutions, each involving some element of compromise. Organisation design is a field that addresses complex systems – in this case, human systems – at scale.

Today, virtually all large organisations use some form of matrix and work gets done as much through collaborating across internal, and external, organisation boundaries as it does up and down the hierarchy. These cross-boundary networks and connections don't happen by accident and need to be purposefully designed. The opportunities presented by cloud, AI, digital, data, and analytics simultaneously increase internal organisational complexity while helping organisations manage the external complexity that continues to increase in the business world.

1.0

INTRODUCTION

THE CORE DESIGN CHALLENGE

Core organisation design is about balancing competing tensions. In the 1980s, multinationals grappled with global coordination while being simultaneously locally responsive (Bartlett and Ghoshal 1989). Additional tensions are driven by trying to balance differentiation and integration (i.e., achieving a balance between empowering business units and coordinating activities across the enterprise), managing simultaneously across multiple time horizons, and driving efficiencies while hyper-scaling. Managing competing tensions and polarities has always been a core design challenge.

Today the challenge is to balance scale (the benefits of thinking big) with agility (the benefits of acting small). CEOs want to know how to:

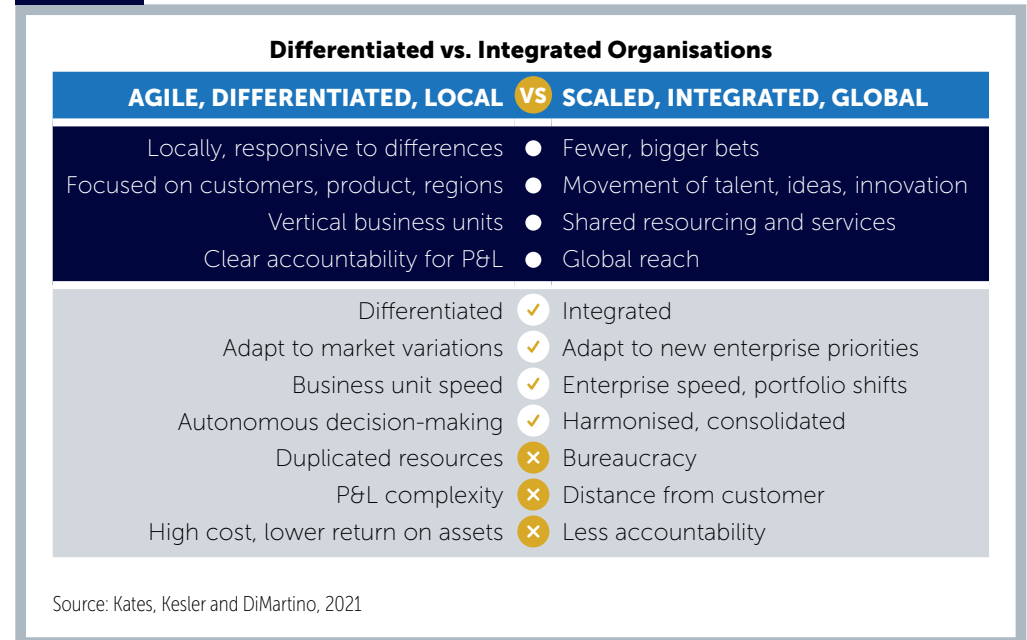
- Move fast in the market while leveraging corporate assets.
- Run a global brand while delivering it with local relevance.
- Build common platforms while accommodating regulatory and technology differences across geographic boundaries.

In their latest book, *Networked, Scaled, and Agile* (2021), Kates, Kesler, and DiMartino describe today's fundamental tensions as a pull between autonomy and scale, global and local, core business profitability and start-up energy, or speed and leverage. They suggest that organisational agility can be gained through the artful combination of organisation elements that combine differentiation (small, autonomous, local) and integration (big, connected, global) as shown in Figure 1 opposite.

The largest organisations accept and embrace inherent tensions and polarities. They see it not as a constraint to be managed but as an opportunity for value creation. Microsoft, which is well known for putting growth mindset at the core of its culture, seeks to optimise for its purpose in the full organisational and environmental context. It expects organisational leaders and teams to accept the polarities and overall 'messiness' of operating in a complex ecosystem, to adapt their thinking, and to thrive in it.

Agility is a fashionable term these days and it often means different things to different people. We distinguish between *Agile* as a project management set of practices adapted from the software development field and organisational *agility* as an advanced management capability that allows leaders to make timely, effective, and sustainable organisation changes for competitive performance advantage over the longer-term. Enterprise agility is the ability

FIGURE 1



of the entire company to make fast adjustments regarding whether to invest in expansion, innovation, technology, or talent. Market agility occurs when local business units adapt rapidly to local needs. Both require devolving decision-making and resources as close to the customer as possible, and creating the capability to innovate in the local market, while still keeping a coherent enterprise direction.

In practice, we are seeing a combination of approaches (rapid experimentation, prototyping, flexible funding/resourcing) which might normally be termed as process changes or changes to ways of working, that supplement the more traditional structural levers to create the management capability of agility. Thus, in looking to design their organisations for agility, leaders are first and foremost making changes to elements of the organisation design that relate to alignment of objectives and effective functioning of the lateral organisation, in addition to making changes to the operating model and vertical structure.

THE CONTEXT TODAY

It has long been established that organisation design needs to be grounded in and driven by business strategy. Galbraith's Star Model has been the bedrock of this approach with its focus on multiple components and the importance of inter-linkages between them to shape systemic change. Increasingly, organisations are also looking to complexity science, which complements engineering-driven systems thinking by focusing on *how things connect*, not on *how they are* with an emphasis on *changing connections*. For example, the Cynefin approach by Dave Snowden, which takes its inspiration from natural systems and looks at how to manage flow in a natural habitat or place and create a sense of multiple belongings as a way of managing ordered, complex, and adaptive systems, was cited by some of the companies we interviewed as helping them keep their organisation tuned to deal with complexity. They are prioritising lateral connections (through networks and communities) and helping employees get comfortable with multiple belongings (e.g. function or business unit for career growth and cross-functional project teams for personal development and achieving customer-driven outcomes) to help them keep their organisations tuned to deal with complexity.

Our world continues to get more complex, with inflation, pandemic, and conflict amplified by the ongoing challenges of energy transition, rising inequalities, and societal polarisation. As the credibility of governments and institutions declines, large businesses are seen as societal arbiters with bigger responsibilities and demands. If you add in the opportunities now available through cloud, AI, and digital, we have moved from a state when we could unfreeze-change-refreeze to one of continuous change and organisation redesign. Change and transformation need to be concurrent organisation priorities today.

Companies will always do large scale operating model and organisation design changes, often as a response to a leadership change, strategic shift, or competitor move. However, in light of continuous change and disruption, we see an increasing emphasis on activating new ways of working. Traditionally, ways of working were part of organisation design implementation, i.e., once the design was considered stable. However, with design and change becoming concurrent, organisations are increasingly spending more time on ongoing adaptation of their structures, systems, processes. Agility is a useful frame for this.

This creates an opportunity for HR practitioners to understand what agility can and can't do and take a leading role to help their leaders continuously tune their organisations. To do this, they need to anchor their efforts on customer and value (outcome measures) rather than just on spans/layers/cost (process measures). They need to be able to coach leaders on how to

bring together cross-functional teams and networks to solve customer problems. HR's biggest contribution can be to adapt existing HR levers (such as flexible resourcing, performance management, developing leaders, building capability) to enhance horizontal collaborative mechanisms and ways of working. These incremental adjustments drive learning and thereby build the organisational adaptability required for success today.

STRUCTURE OF THIS REPORT

While there is a place for full scale operating model design (see previous CRF reports on [Emerging Approaches to Organisation Design](#) (2013) and [Designing Adaptable Organisations for Tomorrow's Challenges](#) (2018)), the focus of this report is on elements of organisation design that specifically build agility. In practice, we are seeing that some elements of the operating model are being used more to build agility as a set of management capabilities in service of specific outcomes.

In [Chapter 2](#), we review the fundamentals of organisation design. We explore elements of operating model design for global organisations and list the elements required to bring that operating model to life. These include structural building blocks, value-adding vertical organisation layers, enterprise or organisation-wide capabilities, and horizontal structures and networks.

In [Chapter 3](#), we focus on applying the principles of organisation design to today's challenges. We define agility, explore how to design agility into an organisation and share examples of companies doing so successfully. We examine how to design for new capabilities such as solutions and digital. We conclude by highlighting good practices and pitfalls for practitioners.

2.0 ORGANISATION DESIGN

2.1 FUNDAMENTALS OF ORGANISATION DESIGN

Jay Galbraith, one of the leading thinkers in the field, provides the following definition.

“Organisation design is the deliberate process of configuring structures, processes, reward systems, and people practices and policies to create an effective organisation capable of achieving the business strategy”. GALBRAITH (2002)

Some key points are as follows:

- The start point has to be the organisation’s strategy and business model. These determine the organisation’s purpose and its economic logic for success.
- Organisation design is about much more than organisation structures or charts. It covers formal structures, processes, and governance mechanisms, as well as the more informal networks and relationships that enable work to be done.
- An organisation’s design operates as a system. Changing one element of the design is likely to have an impact elsewhere in the system, and if this is not carefully managed it can lead to negative unintended consequences, such as incentive systems that reward the wrong behaviours. All the different elements of the system need to be designed to work together coherently to deliver the strategy.

THE STAR MODEL

★ **STRATEGY** is the company's vision and mission as well as short- and long-term goals, and determines the company's direction. Different strategies lead to different designs. Each element of an organisation's design should support the strategy.

★ **STRUCTURE** determines where formal power and authority are located, and how limited resources such as people and funds are allocated and co-ordinated. It includes the definition of the organisation's core hierarchical units and of lateral, cross-unit structural linkages that carry out important organisational processes.

Processes are the flows of information and work through the organisation. There are two kinds of processes operating simultaneously.

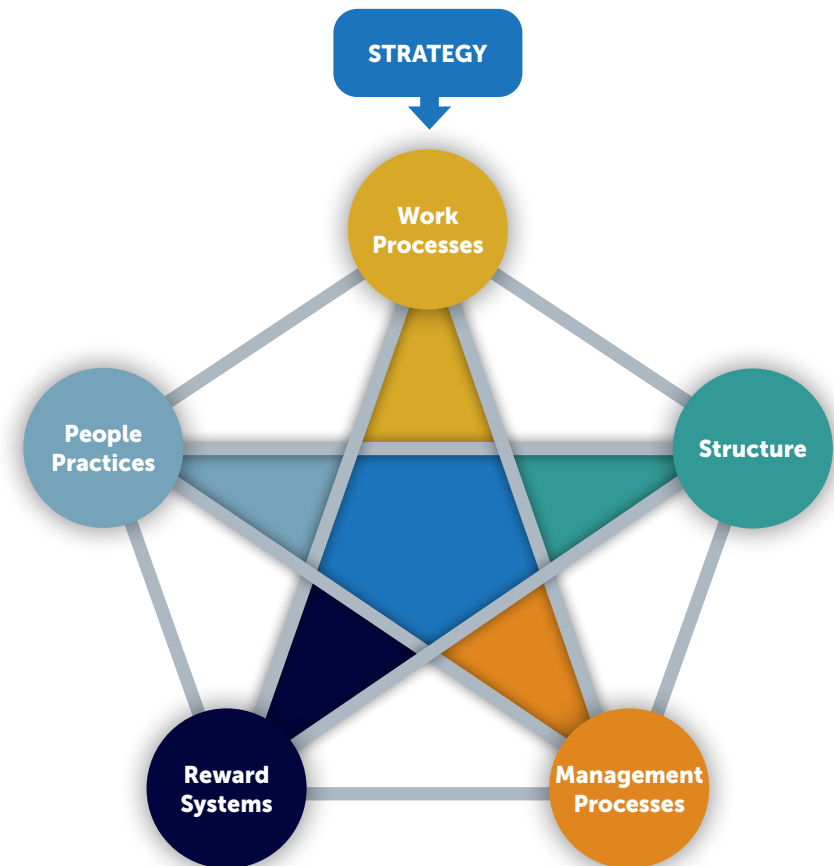
★ **MANAGEMENT PROCESSES** determine the company's direction and allocate scarce resources, such as funds and talent, to different purposes and priorities.

★ **WORK PROCESSES** are the transformation processes of the organisation – or the organisation's capabilities – that turn inputs into the value that is delivered to customers and other stakeholders.

Vertical processes occur within core units and follow the hierarchical chain of the organisation. Lateral processes operate across the units of the organisation.

★ **REWARD SYSTEMS** address the motivation of people to contribute to organisation goals by linking personal accountabilities to outcomes that drive organisational success.

★ **PEOPLE PRACTICES** influence employees' mindsets, help build the right skills, and are central to the attraction, retention, and utilisation of talent.



Source: Adapted from Galbraith (1994)

2.2 OPERATING MODELS

The operating model of a company is the basic organisational architecture that makes it possible to execute strategy at the enterprise, business unit, and functional levels (Kates and Kessler, 2016). It describes the relationship of the components of the company to one another, including relationships with customers, partners, competitors, and suppliers that extend beyond the walls of the company. See Figure 3.

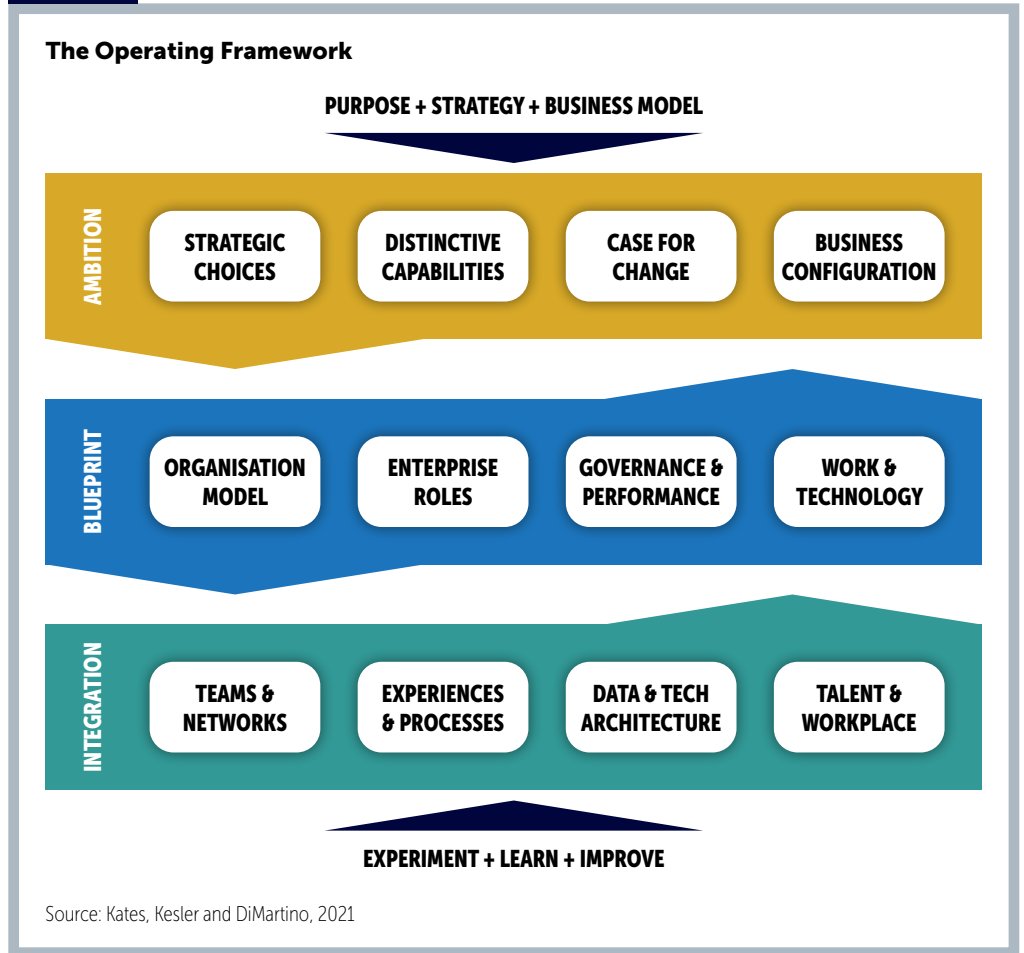
The operating model needs to define the following things:

- The nature and focus of P&L units and enabling functions.
- The degree of integration among business units, functions, and regional centres and the key roles and relationships.
- The forums, networks, processes, and guidance needed for speedy and effective decision-making.
- Enterprise-wide capabilities that need to be fostered.

Given the evolving business context, there will be more:

- **Innovative business models:** Consumer-oriented, digitally enabled, greater vertical integration and more convergence of industries. A large European home improvement retailer allows its tradesmen to order unanticipated spare parts from its local shops on their company app at the customer's expense to shorten installation time. As the customer pays by installation time, this saves the customer money while simultaneously generating a new additional income stream for the company.

FIGURE 3



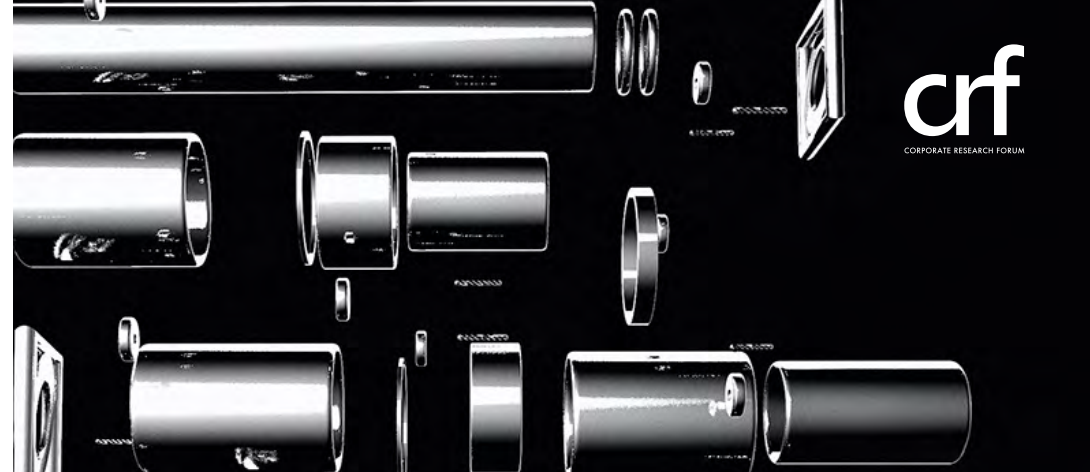
- **Increased focus on integrated customer solutions:** Bundling together product, services, and software into integrated solutions, with design thinking incorporated into user experience. A large technology player is releasing some of its latest products to its customers *without testing it exhaustively* and as users experience challenges, it invites them to start innovating with it on their specific use cases.
- **Digital learning and artificial intelligence:** Incorporating digital and artificial intelligence deeply within the enterprise infrastructure, strengthening the entire value chain from strategy to product development, marketing and selling, and production and supply chain operations. Predictive maintenance is use of data-driven, proactive maintenance methods that are designed to analyse the condition of equipment and help predict when maintenance should be performed. A large energy major is beginning to deploy these at scale across its production and refining assets and is reducing downtime due to unplanned maintenance. As the data set grows, it is shortening the time required for planned turnarounds and maintenance.
- **Ecosystem management:** Extending the depth and breadth of the offering to include external partners in development and distribution of products and services that extend across boundaries, often with both cooperation and competition among the partners. A large wealth manager is looking to create an investment ecosystem for its clients where it is using its app to deliver exclusive content from internal (bank) and external (clients, prospects, partners) experts in short 'snackable' videos, articles and live events. The aim is to make itself an essential source for investment information and actionable insights and connect like-minded clients across the ecosystem around *themes* (such as family offices, young entrepreneurs, philanthropy, art collectors, next-generation entrepreneurs) to drive trading activity, increase net new fee-generating assets, and reduce customer churn.

As companies think about how to design their operating models, they have three basic options when deciding along which dimension to organise:

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, IT, HR, finance etc.).

However, companies also need to consider two further elements of strategic complexity:

4. The degree of integration among different units in the business portfolio.
5. The strategic time horizon of businesses within the portfolio.



2.3 STRATEGIC COMPLEXITY OF OPERATING MODELS

BUSINESS CONFIGURATION

Using a simple framework can help practitioners work with leaders to help them identify and align on what to connect and where to allow autonomy among different business units in the portfolio. See Figure 4.

Where an organisation sits on this continuum will determine the answers to the following questions.

- How much authority will be delegated from the centre to operating units?
- How independent should different operating units be from each other?
- How much lateral and vertical integration and co-ordination is needed to deliver the required results and capabilities?
- What role will support functions play, and with how much power and influence?

Inevitably, the most complex design questions arise in the closely and loosely related portfolios. When times are tough, leaders move left in the drive for greater integration and cost efficiency; at times of growth, they move right. Leadership style or preference is also a significant influence and there are multiple examples of large organisations swinging the pendulum from one end of the spectrum to another over time.

FIGURE 4

Business Configuration Continuum

	1 FULLY INTEGRATED SINGLE BUSINESS	2 CLOSELY RELATED PORTFOLIO	3 LOOSELY RELATED PORTFOLIO	4 HOLDING CO. OR CONGLOMERATE
STRATEGY AND ORGANISATION DESIGN	Single strategy guides all P&L units with minor variations	Complementary business portfolio and core strategies with synergies	Diverse, relatively autonomous businesses set strategies, with limited synergies across units	Structuring cheap finance, buying and selling separate assets
GOVERNANCE	Strategy and execution oversight comes from organisational centre All process and practices are common Single culture	Business units drive strategy and varying degrees of execution, often with shared resources (in a matrix) Seeks benefits of scale in core technologies, product and commercial platforms and/or back-end operation	Business units drive nearly full execution of results with limited matrix Cross-BU scale is limited (e.g. government relations, technology transfer, back-end shared services) Some effort to harmonise culture	Focused on appointing leaders Business units return financials to parent No common processes Multiple cultures
ROLE OF THE CENTER	Drives functional policy, staffing and standards to build a consistent global function presence across the company Functional costs managed centrally	Orchestrates and owns a common strategic agenda and most processes Collaborates closely with divisions to support execution Managed company-wide talent processes and shared services Influences functional cost structure	Builds skills, tools, and talent practices necessary to strengthen a few functional capabilities Priorities are guided mostly in divisions Maybe a few selective shared services Costs managed primarily within the business units	Limited company-wide policies and practices mostly focused on risk and fiduciary matters
COMPANY EXAMPLES	Apple, Coca-Cola, Heineken	Deere & Co, Medtronic, Microsoft, P&G, PepsiCo, Siemens,	Aditya Birla Group, Unilever, United Technologies	Berkshire Hathaway, Virgin Group

Source: Kates, Kesler and DiMartino, 2021

CRITICAL ROLES

Leadership choices around customer differentiation and value creation hotspots lead to identification of critical roles and associated decision rights. According to *Talent Wins* by Charan, Barton and Carey (2018), a key responsibility of the G3 (CEO, CFO, CHRO) is to identify and cultivate the critical 2 percent – the few roles across the organisation that create disproportionate value for the organisation as per its current strategy.

CEO.Works, founded by Sandy Ogg from Unilever and Blackstone, has a simple approach wherein they work with the G3 and leadership teams of corporates and PE-held portfolio firms to identify the few critical areas of value leverage, the work to be done for that value to arrive, and the critical roles (20-30) that deliver the value. For each of these roles, they develop Role.Talent.Cards, which define the jobs to be done and for each of those jobs, look for execution risk. Execution risk is determined as whether the role has the necessary decision rights, capacity (budget and organisation resources), and attractiveness, and also considers the extent of organisation alignment or resistance to those jobs. They then look at the 'superpowers' required by any incumbent and only then consider talent supply – in terms of incumbents or candidates. While this sounds like talent management, it is also *organisation design for value* and is targeted at the areas that create greatest value, depending on choices in the operating framework.

More broadly, decision rights around technology and IT budgets have a large impact on how organisations design for agility. When budgets are held within business units, but there is value to be gained from common approaches (for example, through a common data architecture or data mesh), the choices around who gets to decide and on what priorities have a significant bearing on impact and speed of adoption and are major cultural markers in their own right.

At Microsoft, innovation can be done in multiple ways: in the flow of work on product or operating priorities with discrete funding, in incubation projects and labs funded separately within individual business units, and in forward-looking research and explorations funded as a unit or a stand-alone organisation.

In Brambles, funding follows two tracks. One aims to provide enough latitude within business-as-usual operations to fund smaller developments out of P&L. The other requires longer-term funding and aims to balance the cash profile by generating shorter-term opportunities to help fund longer-term capital initiatives. They see funding cycles getting shorter, as quarterly reviews and replanning within annual limits are becoming more common.

Thomson Reuters has been on a journey over several years moving from a holding company to an operating company and that has impacted the design of the technology function. This was driven less by centralisation and cost efficiency and more by the need to focus on the development of core capabilities required across the entire business portfolio. They have moved from a CTO in each portfolio P&L business towards a centre-led technology service with a Head of Engineering and a CIO. The Head of Engineering owns all the product development resources across the group and the team is organised by capability (e.g., audit, research, risk rather than by business verticals such as tax, legal). The business objectives underpinning this shift are driven by the customer journey. The design is evolving in response to greater convergence of customer needs across the different customer verticals, and increased purchasing across multiple product lines and cross selling. Data around customer behaviour is becoming as important as finance in driving decisions around organisation design.

One of the challenges in moving from a holding to an integrated company is that historically each business vertical had control over its own management data, and there was a lack of alignment and understanding around data across the enterprise. Therefore, one current organisation design task is to develop an internal data model that is aligned and consistent across the organisation. *"We had to look at how decisions were being taken and the data flows required to support that, so we can make sure information gets to the right people involved in planning and decision-making,"* said Aarthi Thana, Global Head of HR, Operations and Technology. This led to designing a centre-led hub and spoke model for data and analytics. Some elements are centralised. Others, such as product analytics, are more centred in which the capability sits in the business units, but consistent governance processes mean data is handled in the same way across the business units. Common career paths mean data scientists follow the same career path regardless of where they sit in the organisation.

Other organisations have similar set-ups around the hub and spoke model for AI, data and analytics, which show the competing tensions of scale/efficiency and speed/local responsiveness being played out. To enable this, most release smaller funds (including quarterly) for shorter experiments and are exploring budgeting by outcomes. The design can create sub-optimal choices, as it still optimises within business unit boundaries first and then at the organisation level – but this is a direct outcome of how the leadership thinks about its operating framework.

"We had to look at how decisions were being taken and the data flows required to support that, so we can make sure information gets to the right people involved in planning and decision-making".

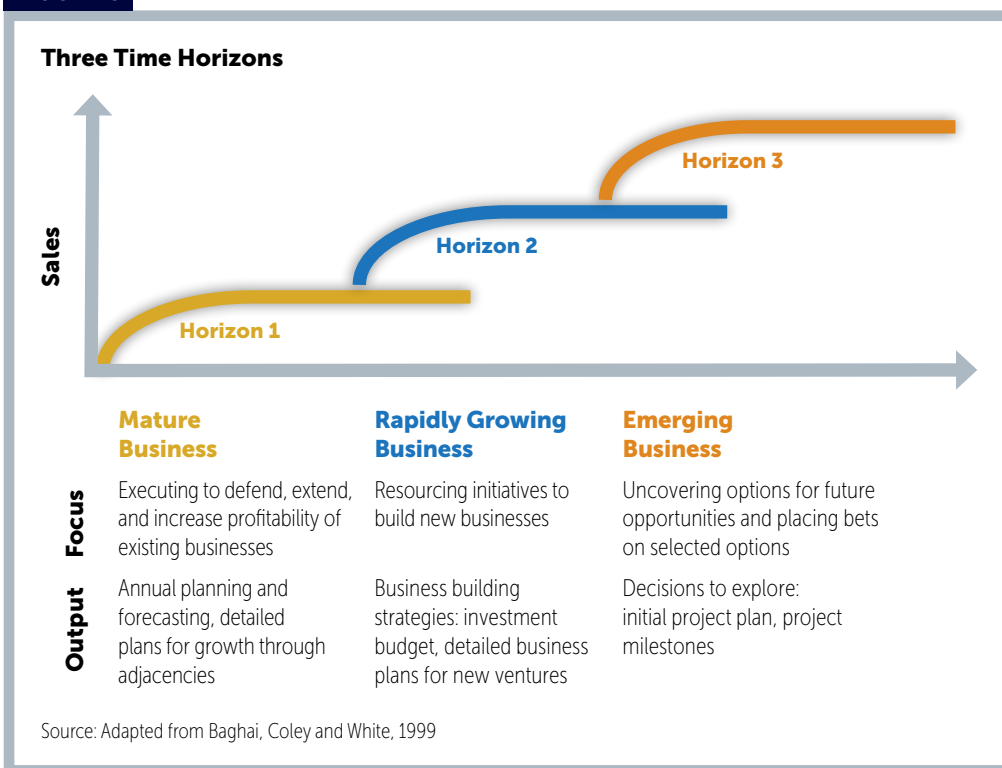
**AARTHI THANA, GLOBAL HEAD OF HR, OPERATIONS AND TECHNOLOGY,
THOMSON REUTERS**

The approach taken by a large European telecom player transforming into a technology-driven organisation follows a common pattern we see. When new organisation capabilities (such as creating new business models enabled by digital) are required, the solution has been to either create a new business unit and spin it off (to ring-fence and protect it from the mother ship for greater flexibility) or to hire experienced individuals with relevant experience to build the organisation capabilities required. But these new units and individuals do not always succeed because of the high friction costs and the need for working the internal system. Separating the new capability can be smart at the beginning, when it's useful to focus resource and expertise on developing it. However, there also needs to be a plan for integration. Otherwise, friction is created when the new business grows and has to integrate with the processes, performance metrics, and culture of the core business.

TIME HORIZONS

Another type of strategic complexity is driven by the time horizons over which organisations need to execute their growth strategies. Horizon 1 involves defending and extending the core business through product line extensions, marketing efforts, or process efficiencies. Horizon 2 typically focuses on creating new products for existing customer segments or adapting a current success formula for new markets. Horizon 3 is where new sources of growth come from, but the payoff is much less certain, and may even cannibalise Horizons 1 and 2 over time.

FIGURE 5



Novartis is a company that has to manage across multiple time horizons. While one part of the company is working to boost the sales of a drug by 5% over the next quarter, another part is developing a five-year plan for bringing a new medicine to market. Leadership has to allocate resources across a portfolio that will produce outcomes in several months or up to 1-2 years, with country leadership teams managing the inherent trade-offs and choices.

This is an example of a common key tension that growth businesses need to manage: how to run the core business efficiently while expanding into new markets. The need to manage core and growth businesses simultaneously generates a number of design questions:

- Should the organisation nurture the emerging business within an existing business unit, where it may be seen as a threat to the core? Or set it up as a stand-alone entity (perhaps a joint venture), which may make it more difficult to reintegrate into the business once it's matured? Or run it as a network of people across different business units?
- Should emerging businesses be subject to different investment and performance criteria and planning horizons from those in the core business?
- What organisational mechanisms are required to connect new products and services with the core business?

Many organisations are finding that, as they seek to build digital capability, the more radical a departure the new business is from the current core capability, the more likely they are to face the following issues:

- It will be challenging to balance old and new in the same organisation.
- Different people will be needed to make the venture a success.
- Processes such as business planning, performance management and reward need to look substantially different in the new business compared with the core business.
- The design of the organisation will be different from the current organisation model.

All of these factors increase the risk of a new venture experiencing 'tissue rejection' because it is so different from the rest of the business. Organisations need to consider these factors carefully when designing the model for a new business.

Many organisations seem to be on a journey in terms of deciding where digital should sit and how it should be organised. For example, Brambles started by creating a separate R&D company which was ring-fenced from the main business. This enabled the organisation to develop its capability and build expertise by attracting a different talent profile which was quite distinct from the traditional Brambles employees. At the time, it was envisaged to be run as a business providing services to customers, but with time, it became clearer that there was a lot of benefit to be had by using digital to drive the efficiency and effectiveness of internal operations. Therefore, the decision was taken to repurpose it as a centre of expertise, and it reported to one of the regional CEOs. This has now evolved to a hub and spoke model to ensure that the capability is embedded in all the business units for it to be used to improve business operations. They still have a separate technology function with a CIO role. Like many companies, the boundaries between the digital CoE and the technology function are not always clear.

MATRIX MANAGEMENT AS A SOURCE OF COMPLEXITY

Virtually all multinational organisations operate some form of matrix. In theory, operating a matrix means an organisation can have it all: robust global products and brands, local market responsiveness, and cost-effective enterprise-wide processes and systems. However, because a matrix is so hard to manage well, it often results in slow decision processes and unclear accountabilities.

Complexity is unavoidable in today's global marketplace, and the organisation model needs to be as complex as the strategy it's designed to deliver. Sometimes greater internal complexity is the price companies must pay for better serving customer needs. For example, some consumer companies have set up business units to interface seamlessly with retail giants such as Amazon or Tesco globally, and while this creates complexity challenges for the leaders of those companies, the customer is better served by having a single interface.

At Google, different parts of the business operate with different models according to their stage of maturity. In established businesses such as digital advertising, multiple models co-exist, orientated around the optimum way to service clients. For example, large global and regional customers have dedicated in-country representatives whilst smaller businesses are primarily serviced by a virtual client team located in key hubs around the world. The Cloud business, earlier in its growth cycle and with a complex product portfolio, has country-specific sales teams subdivided into industry specialisations, supported by engineering experts and product specialists. Overall, Google retains a strong function-first organisation structure with regions and markets layered in below each global function. Informally, the company makes extensive use of voluntary specialist communities, led by experts to manage the need for horizontal connectivity.

The key is to avoid *unrewarded* complexity. This means identifying the nodes in the matrix that create most value and designing forums to help resolve the natural tensions between different parts of the matrix.

REWARDED COMPLEXITY

Reflects the complexity of the strategy – the number of connection points among business units and functions necessary to extract the most value from a company's many assets.

VS

UNREWARDED COMPLEXITY

Unnecessary layers or P&L units, dual reporting and duplication, combined with ineffective management, business processes and metrics, are the recipe for unrewarded complexity.

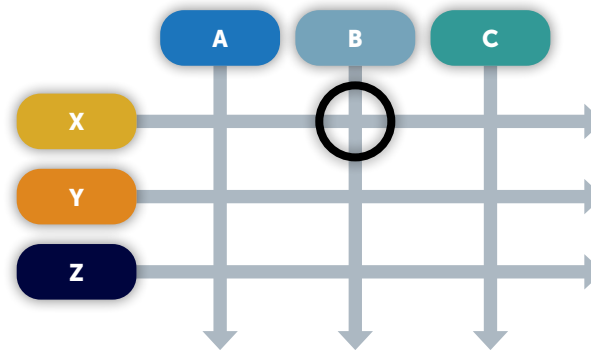
Because complexity is a fact of modern organisational life, the matrix will be part of the organisational furniture for the foreseeable future. To build an effective organisation, you have to be very deliberate in designing the right connections among the various nodes of the matrix to ensure the operating model is as effective as possible.

FIGURE 6

Value is Created in the Organisational Intersections

THREE TYPES OF MATRIX

- 1 Business to Function
- 2 Global to Local
- 3 Product to Customer



What happens in the 'nodes'?

- Innovation
- Customer connections
- Leveraging resources and costs
- Delivering integrated solutions
- Building more valuable franchises / brands

The matrix exists to tie things together across silos – and these are the most challenging activation goals

Source: Adapted from Kesler and Kates, 2016

2.4 ORGANISATION CAPABILITIES

Kates, Kesler, and DiMartino refer to capabilities as the organisation muscles needed to execute strategy. Mark Huselid defines organisation capabilities as bundles of technology, information and people/organisation uniquely arrayed to create or extend a competitive advantage. So, while the business strategy answers the questions 'how to grow' and 'how to play to win', organisational capabilities answer the question: what must we be great at to deliver the strategy? Organisational capabilities should thus be an integrated part of the business strategy. While many leaders may not necessarily recognise the phrase 'organisation capabilities', leaders intuitively understand this as a kind of competitive DNA and hence it is often used by practitioners to link business strategy and organisation design.

Capabilities are more likely to be owned and managed at the enterprise level in the closely related portfolio in the operating framework because they can be shared across businesses. In more loosely coupled portfolios, competitive capabilities are more likely to be owned by individual business units. Detailed examples are opposite.

Examples of organisation capabilities include:

- **Building real world adoption of innovative medicines, customer value management, and partnerships** in the Novartis pharma business. This is how they have articulated their desired strategic shift from a traditional product-led organisation to a more customer-focused strategy and operating model. This requires their organisation design efforts to focus on improving end-to-end customer experience, addressing not only how drugs are marketed and sold, but also how to influence patient behaviour to improve health outcomes by enhancing adherence to treatment plans.
- **Data analytics** at Brambles. They have developed track and trace capabilities for their 400m individual pallets and are putting tags on these assets to optimise logistics or sell value added services (such as temperature tracking for perishable cargo) to customers.
- **Organising for innovation** at Microsoft. From an organisation design perspective, there are several forms the company has adopted to design for innovation:
 - Stand-alone organisations (e.g., Microsoft Research, CTO organisation).
 - Specialised teams within individual product organisations receiving designated funding within that unit's budget.
 - Within the flow of work, based on culture-aligned behaviours and growth-mindset culture experiences.
 - Via a community of the Microsoft Garage, and distinct events like Hackathons. For example, the company runs an annual one-week Hackathon where employees get an opportunity to develop ideas. Microsoft Garage delivers programmes and experiences to employees, customers, and ecosystem partners that drive collaboration, creativity, and experimentation.
- **Scaling through the extensive and diverse partner ecosystem** at Microsoft. For decades, it has been at the centre of how Microsoft delivers technology, services, and solutions around the world. In fact, partners influence more than 95% of Microsoft's commercial revenue, either directly or in partnership. The company funds a designated organisation that manages and nurtures the partner ecosystem.
- **The need to digitise, personalise and focus on prediction and prevention** at BUPA, both in response to competition from big tech and to be ready for the way medicine is changing. Key to this is putting data in the hands of everyone – what they call democratising the use of data. Technical resources are responsible for setting up the architecture and the digital skills academy trains people to use data in their everyday work. *"We are looking to make*

"We are looking to make the use of data second nature for our people".

NIGEL SULLIVAN, CHIEF SUSTAINABILITY AND PEOPLE OFFICER, BUPA

the use of data second nature for our people," said Nigel Sullivan, Chief Sustainability and People Officer. Part of democratising data is to create tools and apps that give people easy access to data (including access to customer complaint calls) to enable the generation of improvement ideas.

- **Business performance while hyper-scaling** at Google. With businesses at different levels of maturity and a complex matrix structure, much of the organisation design work is about making polarities explicit: recognising that you have to make trade-offs and working through the implications of the choices you make around how to manage polarities. For example, the EMEA Cloud after-sales organisation recently shifted from geographic to product-led. While this drives the specialisation needed to maximise sales opportunities with large customers, it also requires the sales force to navigate a matrix with more emphasis on connecting with the product and technical specialists to build the knowledge required to bring this together for their customers. In fact, polarities are so important for leaders to navigate that Google explicitly trains its leaders in the work of Barry Johnson (author of *Polarity Management*, 1992) through a Leading in Complexity programme offered by the Google School for Leaders.

Organisation capabilities, such as the above, are first addressed through design choices but then activated through bringing the right connections, conversations and know-how to life. We will explore activation more in [Chapter 3](#). We are encouraged to see that many organisations are using organisation capabilities (either implicitly or explicitly) as a guide to make choices as they grapple with the core design tensions and polarities.

2.5 INTEGRATION MECHANISMS – VERTICAL AND HORIZONTAL

Clarifying accountability and decision-making across organisation levels has been a topic of discussion ever since vertical organisations have existed. The basic premise is that each leadership layer should add a unique contribution and that decision-making should be as close to the customer (or front-line) as possible. There are well-known challenges of a rigid structure where decisions are made at too high a level, information flows are only up/down, and organisation units struggle to connect horizontally leading to duplication of work, slow decision-making, and stifled innovation.

While it might sound forward thinking to denounce 'hierarchy' as a proxy for 'rigid', actually aligning vertical structures helps organisations to focus on strategic choices and priorities. The layers of leadership framework is a useful way to design the roles, decision rights and associated management systems required to deliver those strategic priorities.

FIGURE 7

Layers of Leadership Work

STRATEGIC LEADERSHIP LAYER

- Set the vision, manage the portfolio, set clear direction, priorities and culture
- Make big bet and trade-off decisions
- Communicate purpose with one voice



INTEGRATIVE LEADERSHIP LAYER

- Manage the forums, systems, processes, and ways of working to drive horizontal, structured collaboration across boundaries



ANCHOR BUSINESS LAYER (OPERATING LAYER)

- Service customers profitably
- Enable teams with direction, resources, coaching, and clarity – consistent with enterprise guidance



Source: Kates, Kesler, and DiMartino, 2021

The Integrative layer is one we would like to highlight, as it is often overlooked. This is where horizontal collaboration comes to life as senior leaders can role model collaboration and make recommendations on enterprise choices, monitor cross-boundary performance, make cross-unit trade-offs, align resource levels, and manage operating level talent for growth.

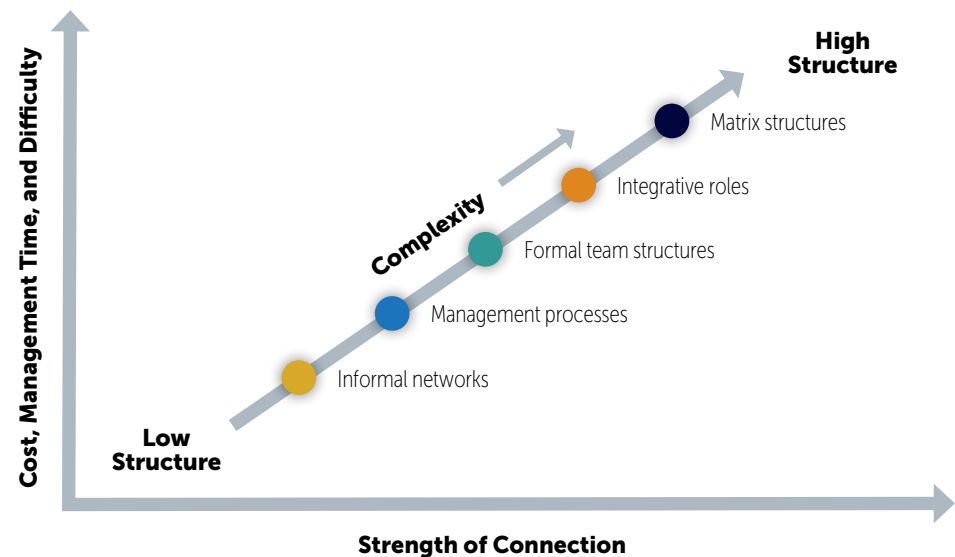
Similarly, not enough attention is paid to connecting the vertical layers together. These connections need to be designed in as part of the governance and management processes. These forums are where the real conversations take place which go beyond information sharing.

The horizontal organisation is a path to achieving both agility and scale. Agility requires the assembly of assets, regardless of where they are created or produced, to meet unique customer needs. Scale is achieved by bridging services, platforms, and processes across business units. Well-designed lateral mechanisms not only allow but also encourage people to join cross-boundary teams and networks and to take responsibility for results they cannot deliver on their own. They rely heavily on individual behaviour and the organisation culture to succeed.

Galbraith identifies 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.

FIGURE 8

Lateral Capabilities Sit on a Continuum



Source: Adapted from Galbraith (2002)

INFORMAL NETWORKS – interpersonal relationships that co-ordinate work informally

As HP has moved away from its previous functional organisation model, it is increasingly using centre-led centres of expertise and networks, such as communities of practice, as a way of scaling capability and supporting local experimentation. For example:

- A centre-led network for designing the future of work. A small centre-led team is supported by a network of people in different market and functional teams. They utilise their employee listening strategy to get input from employees and identify signals across the workforce. Business Impact Networks in each of their locations are tasked with co-creating solutions to the emerging themes. These impact networks are multi-purpose: they address topics including innovation and business development as well as people development. The networks use design thinking principles to design and test potential solutions. Successful experiments are shared and scaled across markets. These networks began as market-specific employee groups focused on topics such as women's networks but have now evolved to address wider questions and sometimes even work on enterprise-wide themes across multiple markets. They support agility as they combine local impact with the capacity for dealing with enterprise-wide issues in a coordinated way. Olga Martens-Stuurman, Director Future of Work said: *"Historically, the big questions about how we work would typically be resolved function by function. Post-Covid we are resolving these questions enterprise-wide by experimenting locally and coming together cross-enterprise to learn from experiments and choose where to scale"*.
- A centre of expertise for Agile is responsible for developing HP's approach to agile development, incorporating latest trends and best practices. This supports a global community of practice of people who act as ambassadors for Agile in their part of the business. Community members coach, train, mentor, and sponsor projects in their part of the organisation.
- HP's approach to data is similar. A centre of expertise brings together a team of experts who provide data science services to different parts of the organisation. This formal structure is supported by communities of people who use data in their business roles. It's important for people in the community that they can develop both their data expertise and their functional expertise or focus.

As HP has moved to a market-based organisation model, there is a greater need for people with relevant expertise to be brought together for temporary assignments, such as dealing with an acquisition or crisis management situation. *"We are going to see more of this,"* said Martens-Stuurman. *"Employees want more flexibility and the business benefits from having more fluid organisations where people with expertise can be assigned to cross-enterprise projects as needs arise"*.

MANAGEMENT PROCESSES – move decisions and information through the organisation in a formal flow

As Novartis' organisation moves away from franchise leaders with all the resources under their control to accessing resource pools to deliver required outcomes, management processes such as budgeting, tracking performance by outcome and allocating talent to tasks are being updated. One solution is to make the person who leads the capability resource group a member of the leadership team with shared accountability for outcomes, so that if that person cannot provide the required resources at the right time, the whole team will not achieve its outcomes. While professional services firms have operated resource pools for client project team deployment for years, this is now becoming more common in larger corporates.

Following a three-year review of the impact of its agile transformation, Dutch bank ING found that decision rights had to be redesigned. The new organisation model, which was designed for speed to market and customer focus was being held back by decision processes that were slowing down the organisation's ability to move at speed. The solutions focused on developing clarity across the system around who was accountable for what, and redefining the interfaces between agile delivery teams and central functions.

Thomson Reuters has created an Agile OD pool within the people function. This is a pool of people who are assigned dynamically to the highest priority work programmes and projects. People move into project teams, but the reporting lines don't change. The project pipeline is determined by the People Leadership Team and reviewed on a quarterly basis in line with strategic business priorities. Other organisations with small pools of in-demand specialists are creating similar pools to ensure that the highest enterprise-wide priorities are addressed. The challenge is to have a transparent process for resource prioritisation which is able to compare priorities coming from different parts of a large organisation.

Brambles use a proprietary transformation methodology but have also developed their own internal OD toolkit which HRBPs use in their work. The focus of the toolkit is to minimise the need for structure change and find ways to foster cross-organisational collaboration, tackling these first before considering a structural change. For example, within operations, they have used the collaboration wheel to facilitate conversations among all key stakeholders to work through where there was potential misalignment, how KPIs could be aligned, and to identify ways that they could enhance collaboration and alignment in ways that didn't require structural changes. The result of these alignment conversations was that scores for collaboration in the relevant employee survey increased by 10 points.

In addition to flexible resource allocation, flexible capital allocation is also a key focus. Thomson Reuters has set up an enterprise prioritisation committee to review business priorities and decide how to allocate funds to both business-as-usual and capital projects. External commitments to the markets around digitisation, customer experience and data

provide guardrails for investment decisions. “What this approach has taught us is the importance of having a dialogue as a leadership team about priorities and guardrails,” said Aarthi Thana, Global Head of HR, Operations and Technology. Previously, when individuals were asked to force rank their priorities, the result was a scatter graph – the priorities of individuals were spread across the chart. Now, the dialogue as a leadership team helps them to identify those things that will differentiate them as a business.

TEAMS – formal cross-unit structures bring people together to work interdependently and share collective responsibility for outcomes

Novartis is explicitly clarifying accountabilities at the country level. The aspiration is that the country leadership team will be measured and incentivised on team-based targets, and will be accountable for executing on agreed business and customer outcomes. The redesign will make country CEOs more customer-oriented, outward facing and commercial. The country leadership team will have greater power over how the customer experience is defined and executed and will have shared accountability for business performance. They must pull together the necessary resources in terms of product, market and customer expertise to drive execution of planned outcomes for customers and find a way to balance global product targets and local in-country customer needs while delivering their agreed P&L targets. They are also shifting towards team-based performance measurement and reward to reflect this shift in accountability. See the case study on [page 32](#) for more information.

INTEGRATIVE ROLES – co-ordinating or boundary-spanning roles that orchestrate work across units

Shell, the energy major, has Performance Unit Managers who own P&Ls at key value creation organisation nodes. They have to build alignment with multiple business and functional peers and Business Opportunity Managers to be able to deliver their P&L promises. The Business Opportunity Managers, in turn, are tasked with winning and delivering multi-billion major capital projects by bringing together the organisation’s capabilities and partnering with external stakeholders. These roles are examples of key integrative roles working horizontally to configure the assets of the business units into solutions for value delivery.

TT Electronics, which operates a highly decentralised business unit structure, has appointed a commercial SVP with responsibility for developing solutions selling capability, developing large accounts, and improving cross-selling across divisions. This role chairs a sales council which includes commercial representatives from each division.

MATRIX STRUCTURES – formalised dual or multiple reporting structures that place accountability for managing the conflicting needs of different dimensions of the organisation in one role

A large global multinational worked with its top 100 leaders to proactively design organisational conditions for successful matrix management at the nodes where greatest value was being created. This included a series of in-depth conversations with the key teams on:

- **Matrix clarity:** Understanding and articulating why the matrix was necessary to achieve enterprise objectives (rather than being a constraint), creating clarity where business goals and business/function goals were not aligned and clearly articulating the concept of ‘primacy of business outcome’ for better business results.
- **Role clarity:** reframing their roles as driving performance vs. only evaluating performance, focusing on outcomes that could be controlled or influenced (‘circles of control’) and prioritising efforts on value and materiality.
- **Creating strong stakeholder connections:** Creating personal networks of key stakeholders and high-trust relationships necessary for success, building coalitions of support to drive performance (ahead of when they were required) and building social and organisational capital by coaching and helping others.
- **Alignment:** Building shared ownership and commitment by initiating and transforming difficult conversations into learning conversations, engaging peers to co-create solutions and shared ownership for outcomes and holding people accountable for their commitments.
- **Decision-making clarity:** Effectively ‘chartering’ decisions (agree on outcomes, criteria, scope, process, and timing), clarifying roles and decision rights and exercising ‘primacy of business outcome’ to guide decision-making.
- **Creating fit-for-purpose matrix management practices:** Scanning and collecting data to raise the bar on performance internally and against competitors and establishing a regular cadence of meetings with all key stakeholders.

This approach was comprehensive and went beyond clarifying decision-making rights. It was tied to leadership development and anchored in the business strategy as the organisation realised the criticality of embracing matrix management to deal with complexity.

While all of these can be designed, increasingly organisations are using networks as an explicit design choice to build the lateral connections needed to balance agility and scale. However, before we explore this, it is important to think about how the *centre* can enable this.



2.6 CENTRE-LED – A NEW ROLE FOR CORPORATE

If the core design challenge is how to balance agility and scale, what role does the corporate centre play in resolving that tension? The centre has often been seen as a mechanism for control. However, it is useful to distinguish between integration and control. Depending on the choices in the operating framework, there will be some things that the centre wants to control, but often the centre can play a more useful role by connecting business units and functions, aligning them around a common agenda, and leveraging capabilities in one part of the organisation for the benefit of others. The centre can create internal networks and communities. Functions can focus on creating pathways to support collaboration, to allow information to flow and enable fast, sound decision-making. A key question for functions to ask is: “How are we making the internal and external customer experience better?”

The key is to be centre-led, not centralised. This means that headquarters is not seen as the centre of good ideas, but as an enabler that connects expertise and innovation in one part of the organisation with that in another. This helps to reframe the centralised-versus-decentralised debate into a more useful discussion. When the role of the centre is articulated clearly and then staffed appropriately, the centre becomes an enabler of strategy rather than being (or being seen as) overhead to be tolerated. Activities can be centre-led

without resources having to be located in corporate headquarters. Resources can be sited in geographic units, which can help reduce the tension between corporate functions and business units and opens access to a wider pool of talent.

The role of the global function moves towards that of capability builder: masterminding the flow of talent from one business or market to another to focus on growth opportunities. This doesn't necessarily need to be achieved by hardwiring the relationships into a solid reporting line, but rather by linking professionals through a less formal network.

Therefore, the centre does not hold the monopoly on cross-enterprise work. Work is distributed across the organisation. Hence coordinating mechanisms such as budgets and resource pooling become avenues of integration rather than central control. Organisations are becoming more creative about placing centres of know-how or expertise in geographies, where they can remain close to businesses, customers, and employees.

FIGURE 9

Centre-led Distinguishes Integration From Control

Global INTEGRATION	CENTRE-LED Single strategy, common process and tools, clear decision guard rails, empowered teams (freedom within a framework)	CENTRALISED Policy, fiduciary controls, centralised reporting
	DE-CENTRALISED Autonomous business units with little functional or central guidance and little synergy expected	HIGH CONTROL, LOW INTEGRATION Bureaucracy
Local	Low	High

Source: Adapted from Kates, Kesler, and DiMartino, 2021

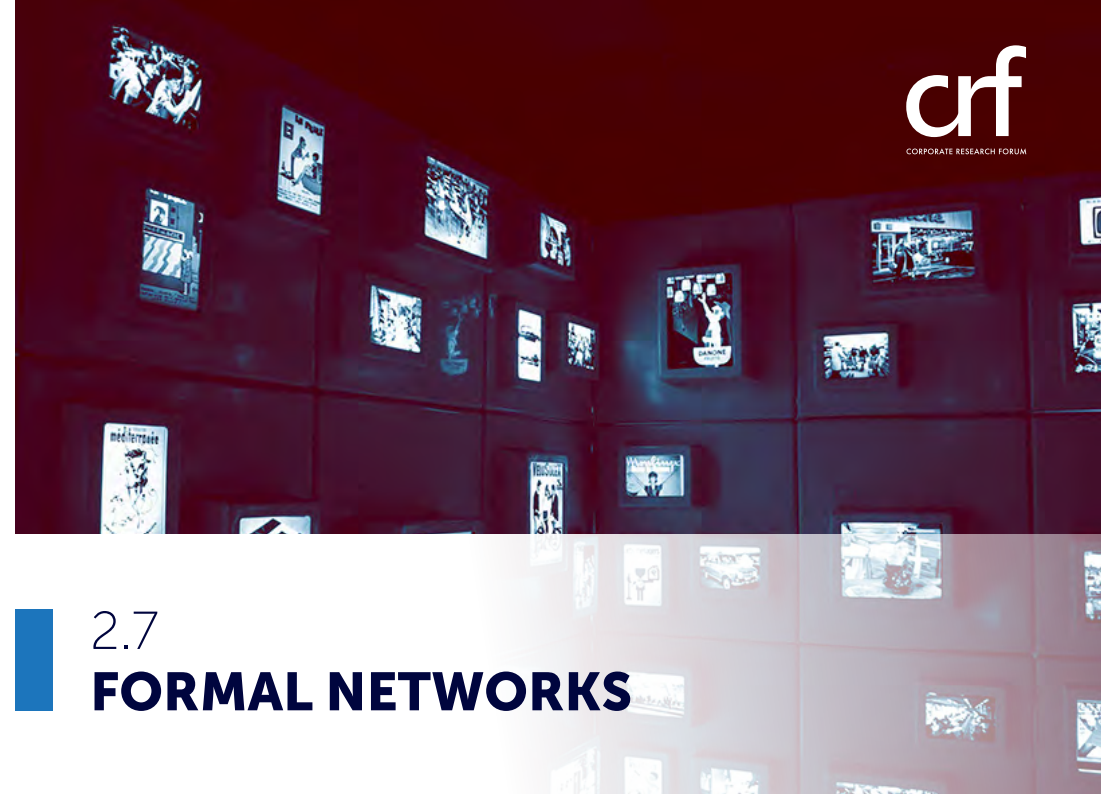
“Centres of Enablement [have] worked really well because you are putting the regional leads in the shoes of the group function”.

NIGEL SULLIVAN, CHIEF SUSTAINABILITY AND PEOPLE OFFICER, BUPA

BUPA has developed three ‘Centres of Enablement’ to deliver the critical technology infrastructure required to drive the organisation transformation. This is an example of a centred structure. The three centres, covering cloud adoption, digital development, and data and AI, develop new capabilities required to sustain BUPA’s enterprise business transformation. Previously, the technology function was highly siloed, so it was difficult to get people to work together across the three market units, and there was duplication of technology resulting in inefficiencies. The new CTO identified the three areas as necessary to build capability. Rather than have these run as fiefdoms out of headquarters, he put a structure in place where the three market units would run them on behalf of the organisation as a whole. Each of the regional CTOs runs one of the centres of enablement on behalf of the whole organisation.

“It has worked really well because you are putting the regional leads in the shoes of the group function,” said Nigel Sullivan, Chief Sustainability and People Officer. Technology is developed once on behalf of the whole group, based on a joined-up plan. It provides a focal point for expertise and allows for efficient development of technology solutions that are rolled out group wide. Benefits include standardisation, increased resilience, reduced redundancy, solving shared problems once on behalf of the organisation, the ability to replicate successful technology implementation at scale, and sharing best practice. Employees of the centres of enablement are employed by their regional unit but provide services across the whole group. One of the objectives is to develop global framework agreements with strategic partners such as Microsoft and Google – which would have been impossible under the previous regionally-driven structure.

Thomson Reuters talks about requiring the organisation to make deliberate choices about the level of maturity of certain capabilities that need to develop. Where they do not have mature capabilities, a purely distributed model does not work because it does not give them enough focus on capability development. In that case, they use centralised or centre-led approaches to bring core capability resources together, develop common standards, educate, and create communities of practice. That allows them to be more agile in the longer term.



2.7 FORMAL NETWORKS

Having understood the criticality of horizontal connections and the role that the centre can play to drive it, let us now turn to how we design dynamic formal global networks powered by technology that allow people to work in real time around the world with common tools and data.

Networks can be split into informal, relationship-based networks and formal organisation networks. As discussed above, informal networks are formed between individuals who come together on the basis of trust or a common interest for cross-boundary work. Formal networks are distinct entities with an organisation defined purpose and comprise of people who also sit in the vertical structure of the organisation. For example, an industry network can bring together product specialists and commercial leads to create industry-specific bundles of products, services, and solutions to meet customer needs. A formal network is therefore woven into the fabric of the organisation. The network becomes a membership construct where membership evolves to serve the network purpose. Hence, a network is a lighter form of organisational connection than a matrix, as the latter requires dual reporting lines.

Like other design constructs, formal networks have to be reinforced – whether through reward systems and metrics and business and management processes. Decision-making forums have to be built to manage the trade-offs that serve company interests. Effective networks can be designed, but not installed: finding the right balance of being inclusive, minimising coordination cost and maximising trust takes time.

There are two types of formal networks:

1. Capability networks leverage scarce, valuable insights and assets and make them widely available across the organisation.
2. Operational networks provide a standing-governance forum for oversight of complex boundary-spanning work.

Capability networks start with the assumption that people, systems, and work are best placed in the operating units, but that the enterprise will benefit from tying them together. Benefits of these professional communities include talent attraction, innovation, and alignment. Well-designed networks can create learning opportunities and career paths that operating units can't offer. They can link and amplify insights and experiments for further investment and engage a diverse set of leaders from the integrative layer around strategic issues and investments. The key is to think *centre-led* and to tie members of the network together through a well-designed centre that plays an active role guiding the right blend of global and local decision-making around shared priorities (Kates and Kesler, 2016).

Innovation driven capability networks are often less visible or formal and may take two forms: those who connect across boundaries to identify a problem to solve (user interface, product quality, etc.); and those who connect across boundaries to create options and solutions. Innovation networks are also often formalised into teams (new product development teams with marketing and operations together), but those teams can become too static or not have the right voices as the context changes. Innovation often benefits from looser, more fluid networks, so it's important to create ways for these connections to occur. Examples might include designing meetings and facilities that bring people together informally, innovation forums, rewards for idea generation, or sites for sharing good practices. As part of ING's agile transformation, the Dutch bank moved from a tower block to a low-rise open-plan building. The move was deliberate. In the new building, the stairs are a central feature of the building design. They zigzag and connect, encouraging connections and collaboration. The low-rise design of the office is also symbolic of the shift to a flat, team-based organisation that comes together across 'tribes' and 'squads' to deliver customer solutions.

Operational networks create unique offerings that no one part of the organisation can create on its own. As with capability networks, the members live in their function or operating unit, but they can be members of one or more networks. Membership is a formal role, accountable to the network and the business priorities served. Member participation can be fluid around a governing core of team members that will remain constant. Other network

"Irrespective of whether you design informal or more formal centre-led capability or operational networks, a shared purpose, compelling leadership, clear operating mechanisms, and a focus on activation are essential for success".

members may participate as the workload requires. Execution-focused operational networks consist of roles in the organisation that need to work together to deliver on initiatives. Often, these networks are configured into formal project teams, but there are often roles outside of the formal team that need to be brought in. These may be influencers, those who have veto rights (legal, data security, etc.), or external players that will be key to execution.

Accenture has created industry-specific operational networks accountable for client insights, end-to-end positioning, and offering development while ensuring that the commercial focus remains with the 20 front-line market units. Solution components are provided by the service groups (technology, strategy, operations, etc.). These networks ensure accountability for another dimension of strategy, with the benefit of a design that is more fluid than typical function/business unit connections. Power in these networks comes from delivery of focused business priorities rather than reporting lines. Members live in their existing structures, but they operate horizontally.

We also hear from many organisations that fluid networks and communities of practice – often voluntary – are seen as creating a sense of community and belonging. They are also a way of identifying and developing talent, as future leaders who have a greater drive for collaboration and ability to influence through informal authority can be developed.

Irrespective of whether you design informal or more formal centre-led capability or operational networks, a shared purpose, compelling leadership, clear operating mechanisms, and a focus on activation are essential for success. The next chapter explores activation in the context of developing organisational agility.

3.0 ACTIVATING ORGANISATION AGILITY

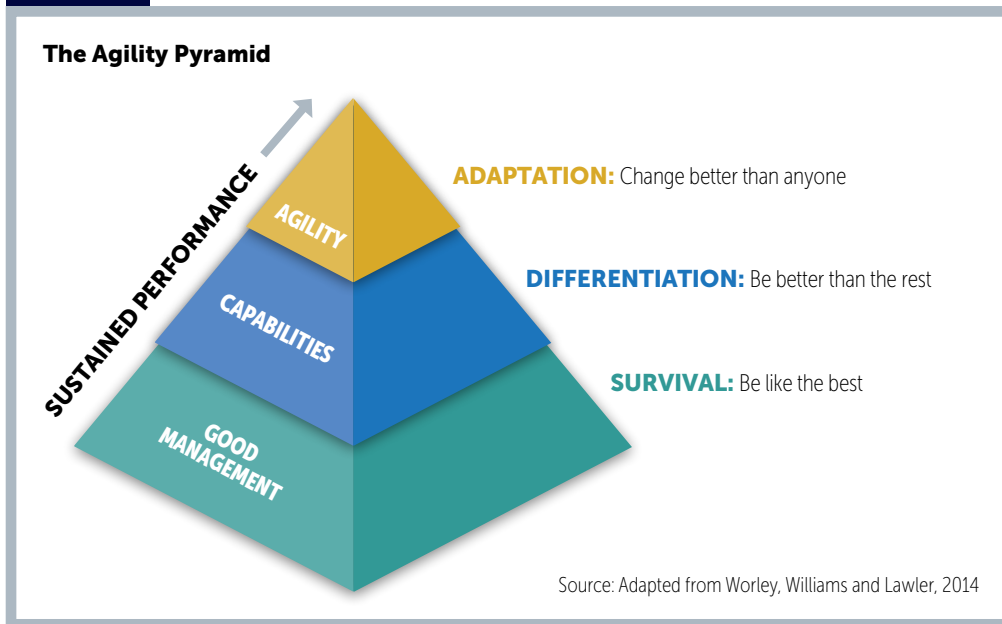
3.1 AGILITY

We have previously distinguished between *Agile* as a project management set of practices adapted from the software development field and *organisational agility* as an advanced management capability that allows an organisation to make timely, effective, and sustainable changes for competitive performance advantage.

It seems everyone has their own understanding of what organisational agility means, but according to Professor Chris Worley, author of *The Agility Factor* (2014), there are common myths and realities:

- Agility is not just about speed, it is about discipline, preparedness, and learning. It is a repeatable resource.
- Agility is not just about current performance, but about sustained performance.
- Agility is not just about leadership mindsets, culture, and one-off change management efforts, rather it can be about identity – in a way that is part of business strategy, is stable but supports change and has roots in culture. It reflects values that guide decisions and provides guardrails for who we are.

FIGURE 10



It is interesting to see how business leaders and practitioners define it. In our own interviews, we heard:

- “This is about cross-functional teams focused on customer outcomes and agility is simply a tool for outcomes not a tool for reorganisation”.
- “A way to push decision-making down and generate insights”.
- “It is a way to define customer value and use that to optimise resources continuously, track results, and adapt as necessary”.
- “Short-hand for speed to market”.
- “Fast, experimental, lean, aspirational”.
- “Quick decision-making in service of a broad aspiration”.
- “It puts the focus on customer outcomes”.
- “It’s about experimentation, prototyping and fast adoption”.

3.2 DESIGN IMPLICATIONS OF AGILITY

For the purposes of organisation design, it can be helpful to distinguish *market* and *enterprise* agility. *Market agility* occurs when local business units can adapt rapidly to local needs. Kates, Kesler, and DiMartino point out that while this seems an appealing outcome, these models are also prone to duplicated resources, overemphasis on differences, and lack of connection and leverage. In contrast, *enterprise agility* is the ability of the entire company to make fast adjustments regarding whether to invest in expansion, innovation, technology, or talent.

Enterprise agility is likely to lead to a fluid and dynamic organisation, based on reconfigurable delivery teams, specialised centre-led functions, and less dedicated in-country resource. Market agility means devolving decision-making and resources as close to the customer as possible and creating the capability to innovate in the local market. This usually means sacrificing some efficiency, as there will be duplication of resource across markets.

Designing for agility can mean shifting the axis of the organisation towards functional specialisation. The function becomes the anchor for individuals and is responsible for performance management and career development while day-to-day work happens in flexible multi-functional teams, projects, and networks.

Shifting the focus towards the function also means changes to the role of the general manager. They no longer have all the resources they need to deliver a business P&L reporting directly into them. Rather, the GM has to coordinate across the matrix, achieving results by influence, negotiation and shared accountability. See the Novartis case study on [page 32](#) for an example.



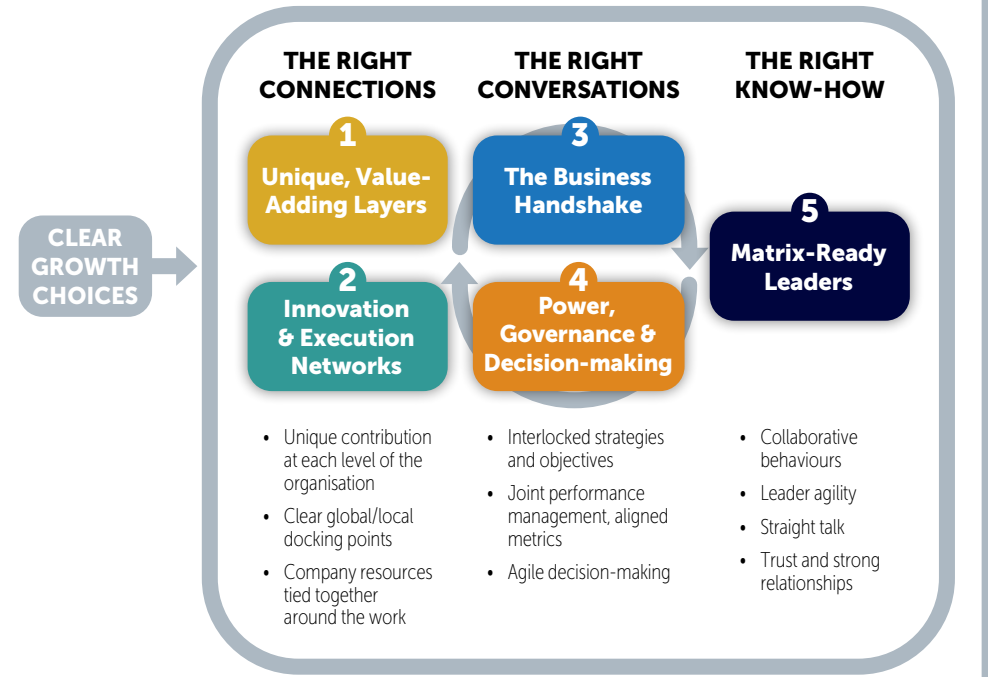
3.3 ACTIVATING THE ORGANISATION FOR AGILITY

Kesler and Kates (2016) have listed three broad sets of tactics to activate today's complex organisations. These work in concert to ensure that structure, processes, measures of success, and behaviours are all aligned and reinforce each other.

1. The right connections are made so businesses, markets, and functions can create value together.
2. The right conversations take place to align objectives, make effective operating decisions, and manage the ongoing performance of the business.
3. The right know-how is built through active talent development practices that deliver a bench of matrix-ready leaders.

FIGURE 11

The Five Activators



Source: Adapted from Kesler and Kates, 2016

RIGHT CONNECTIONS

Although matrix organisations are increasingly powered by lateral connections, modern organisations still need hierarchy. Organisational silos enable focus and the building of expertise: without a silo, you would end up with grain all over the ground. However, hierarchy is no longer about command and control. Rather, aligning vertical structures helps organisations to focus on strategic choices and priorities. In [Chapter 2.5](#) we listed the unique value addition that each layer can provide but these need to be supplemented by formal horizontal networks to co-ordinate activities. Networks and other lateral mechanisms are possibly the most important tools available to organisation designers to resolve the core tension between agility and scale that characterises large global organisations.

Many organisations are using a hub and spoke model, especially as they build capability in AI, Data and Analytics. The hub provides a centre-led focus of expertise on behalf of the organisation which liaises with experts within business units, who combine functional knowledge and business expertise to deliver required work packages (the spokes). We have seen multiple examples where common (and immature) capabilities are developed in the hub and the spokes act in a way to ensure that business-specific needs are factored in and that centrally developed products are tested real-time. This often requires product and technology specialists to work closely together. For example, technology resources, organised by capability areas such as architects, developers, tech ops, owned by the Technology function, are allocated to specific projects. This prioritisation is done jointly by IT (whether Group or OpCo) and the Product Owners in the business units who are jointly accountable for time, cost, and scope of the desired products or outcomes. This cross-functional working of digital and business resources is the heart of agile working, with focus on outcomes, constant feedback, adjusting and monitoring of progress.

Outside technology, we also see other specialist and scarce resources being organised in pools and deployed in a similar manner to aim to get the balance right between scale and efficiency, and speed and customer-driven adaptability. Novartis' drive to take work to people, rather than people to the work is an example.

Thomson Reuters talks about shifting the role of the hierarchy in the agile organisation. *"We're shifting the mindset around the purpose of hierarchy. Hierarchies are there to support your career and development dialogue. Allocating work is not just about shifting reporting lines. It's shifting mindsets around how people work together and how they work together outside of traditional lines,"* said Aarthi Thana, Global Head of HR, Operations and Technology.

"We're shifting the mindset around the purpose of hierarchy. Hierarchies are there to support your career and development dialogue. Allocating work is not just about shifting reporting lines. It's shifting mindsets around how people work together and how they work together outside of traditional lines".

**AARTHI THANA, GLOBAL HEAD OF HR, OPERATIONS AND TECHNOLOGY,
THOMSON REUTERS**

A large European telecom operator has focused on getting work as close to the customer as possible for increased impact and responsiveness. Over the last 2-3 years, they have learned that products developed by technology specialists who are closer to the front-line have greater business impact. A recent customer app developed within a business unit reached 65% customer penetration within six months, compared to one developed centrally that got to 25% penetration in three years. In order to do more of this, they have created a Product structure with a Chief Product Officer who has digital and technology specialists with a dotted line into the Technology organisation. The disadvantage of this approach is it requires leaders to spend what they classify as an inordinate amount of time negotiating internal IT budgets between the Technology organisation and the business unit leading to higher transaction costs. This is why designing and practising the right connections and conversations is so important in activation. Companies that get good at making trade-offs such as how to allocate the IT budget get the benefits of both integration and speed. Reducing the internal transaction costs of a more sophisticated organisation requires an investment of management time and energy and often support from skilled HR and OD professionals.

RIGHT CONVERSATIONS

The frequently used image of the organisation as a machine can be misleading: it is, in fact, a dynamic system driven by relationships and behaviour, and is fundamentally shaped by conversations. Increasingly in complex matrix organisations, operating decisions require greater horizontal collaboration across vertical silos than might have been the case in the past. Organisation design needs to facilitate the kind of conversations that will deliver the short-and long-term goals of the business. Two critical activators, the business 'handshake' and choices around power, governance and decision making help shape the right conversations.

The business 'handshake' is an agreement across organisational boundaries on what results will be delivered and how. It sets interlocked strategies and plans between key players in the matrix, and establishes performance management conversations to drive results, collaboratively, over time. When designing the right handshakes, it's important to do the following.

- Focus on the critical few tension areas that need to be defined – those where decisions will have high impact and high risk, and where collaboration therefore pays off.
- Identify the forums and processes where key decisions will happen – don't just designate the individuals or roles who will make those decisions.
- Use simple tools to define who has the final say, and when – for example, who gets the casting vote when agreement can't be reached.

In a global organisation, it's important to strike the right balance between global, local, and functional influence. A key task is to design management forums for making enterprise and operating unit decisions, particularly across horizontal boundaries. Organisations need to define the roles of executive committees, operating committees, portfolio management processes and strategic councils, and link them together to provide clear direction for business units and a line of sight along the chain. This stage can also involve eliminating unnecessary collaboration – and meetings – if you realise, for example, that effective decisions can be made swiftly by *one* leader or *one* business unit. Forums should allow for tensions that naturally occur in the matrix to surface and be resolved.

We hear frequently from business leaders about the importance of the right forums to discuss funding for digital initiatives and resource deployment, where the trade-offs between longer-term enterprise priorities and short-term business-specific needs are identified and resolved. Managing by outcomes (rather than managing by budgets), releasing budgets in smaller and

“Structuring the right conversations in the right forums also builds the right organisation habits and rituals which underpin the organisation culture”.

quicker instalments, and splitting the funding pot so business-as-usual and strategic priorities are subject to different processes are all mechanisms that seem to be gaining wider traction.

Structuring the right conversations in the right forums also builds the right organisation habits and rituals which underpin the organisation culture. The way failures are handled, learnings applied, and leaders role-model certain behaviours are all critical symbols and rituals in the broader development of agility. Employees are quick to spot inconsistencies and say-do gaps, for example when leaders continue to demand perfection (in meetings and documents) and yet seemingly want to encourage experimentation and learning.

The test of a cultural shift is what happens in those *moments that matter*. At Microsoft there is an oft-quoted story of the research team experimenting with a new AI chatter bot called Tay. It was shut down after being in service for only 16 hours after it began posting inflammatory and offensive tweets. In the old culture, there would have been repercussions, and someone might have lost their job or been moved on. However, the CEO sent an email acknowledging the situation, yet encouraging the team to keep at it and learn from the experience. Ultimately, it was successfully replaced by a new bot, Zo.

Having the right conversations also often means involving customers. Through the pandemic, Microsoft had accumulated data and knowledge about customer behaviour patterns which was used by Engineering to rapidly develop a completely new product stack: the Viva employee experience platform. This was developed in an iterative and agile way by working with customers to understand their needs and develop use cases. An early-stage version was launched and continues to be developed through iteration and customer feedback. The shift from launching a product when it was fully tested to partnering with customers to get them to innovate with the Microsoft development team to solve their specific use cases is a big shift but also a good example of creating value through partnership.

RIGHT KNOW-HOW – MATRIX-READY LEADERS

Being a successful leader in a complex matrix requires a specific set of leadership qualities. This includes learning agility, influencing skills, being prepared to share power where it benefits the enterprise, and the ability to deal with tensions between naturally competing priorities. When designing critical roles within the organisation, it's important to consider what's required of leaders, whether the available talent is equipped to do the designed roles and, if not, whether it's possible to bridge the gap. Organisations often do not think carefully enough about the shift in leadership capability required for the operating model to work.

Talent practices – particularly leader selection and development and the processes that identify and develop high-potential talent – need to reflect what's required of leaders within the matrix. Placing high potentials at key nodes in the matrix as part of planned development can help them hone the complex interpersonal skills they need to work effectively in the matrix.

CRF's 2022 report *Making a Paradigm Shift in Leadership Development* identified nine principal shifts in leadership, organised around three key dimensions of how leaders set direction; the organisation infrastructure they need to build for rapid and adaptive strategy execution and how they relate to others. See Figure 12 opposite.

- 1. Outside-in thinking.** Leaders need to develop their capacity for foresight, scanning their external environment for market signals, identifying patterns and developing insights.
- 2. Adaptive strategy development anchored to purpose.** Leaders have to set up their organisations to be adaptable and responsive while remaining focused on a consistent vision and purpose.
- 3. Making sense of complexity.** Leaders need to be able to chart a way through highly ambiguous situations, connect the dots between seemingly unconnected elements of the system and make decisions based on incomplete or conflicting information.
- 4. Leading in an age of activism.** The social contract between organisations and their stakeholders including employees, governments, the media, investors, and the communities within which they operate is shifting. Leaders need to be prepared to be increasingly visible and transparent.
- 5. Building capacity for agile execution.** Leaders have to respond fast to emerging competitive threats and shifting customer expectations by building agility into processes for decision-making and execution.

FIGURE 12



6. Develop a culture of learning and experimentation. An experimental mindset, which enables a range of different options to be prototyped before taking a risk on full implementation, is needed when the context is uncertain. In practice, this is difficult for organisations and leaders who are not used to seeing value in 'failure'.

7. Leading remote and hybrid teams. Hybrid working is here to stay. Leaders have to become adept at establishing authentic human connection and team cohesion through virtual technology, ensuring fairness between remote and in-person teams and maintaining performance and motivation remotely.

8. Leaders as enablers of others. We are witnessing an ongoing shift in expectations away from leaders telling people what to do towards a coaching style that enables others to define their success and deliver against their objectives. Leaders need to demonstrate empathy, curiosity and humility to accept that they may not know all the answers.

9. Fostering inclusivity and wellbeing. Creating an inclusive culture that allows people to perform to their highest potential regardless of background has become a priority. Similarly, supporting employee wellbeing, particularly when working remotely, has become a leadership imperative.

HP has refocused on four cultural values/leadership practices as part of its future of work programme:

- Customer first – customers at the centre of everything that we do
- Growing together – focused on the fact that we can only grow together as a company of teams, and constantly learn from diverse perspectives
- Winning with purpose and integrity
- Leading with ambition and agility. This is relatively new and signals the shift from an over-riding focus on quality to a focus on increasing speed, experimenting, iterating, and building resilience.

Brambles has recently changed its leadership profile of success and it now includes 'Delivers for Brambles' as an explicit reminder that it's about delivering for the whole organisation, not just for your unit or function.

“As organisations look to develop leaders for the future, forging inspirational customer-driven outcomes, enterprise thinking, learning agility and the ability to work laterally to make things happen (rather than simply rely on positional authority) are all increasingly critical components of leadership”.

Shell recently adopted a new leadership framework which has learner mindset at its core. Learner mindset was defined as the belief that everyone can grow their ability, learn from mistakes and successes, and speak up openly in a safe environment. Momentum was created by connecting the behaviours to the new strategy, enabling leadership role modelling and reinforcing through communications, talent, and performance processes.

Microsoft's well known shift from know-it-all / fixed mindset to learn-it-all / growth mindset is the basis of their culture, defined by the following principles:

- Organisational culture attributes of customer obsessed, diverse and inclusive, and one Microsoft.
- Enduring values of respect, integrity, and accountability.
- Leadership principles are to create clarity, generate energy, and deliver success. Leadership at Microsoft is for everyone and the principles are designed for the complex environment.
- People manager expectations are to model, coach, and care.

This collection of beliefs creates continuity of lived culture experiences. At the same time, Microsoft has learned to allow for a certain level of autonomy and empowerment across different organisations, finding out that only a critical few practices are best done in exactly the same way.

As organisations look to develop leaders for the future, forging inspirational customer-driven outcomes, enterprise thinking, learning agility and the ability to work laterally to make things happen (rather than simply rely on positional authority) are all increasingly critical components of leadership.

CASE STUDY: ACTIVATION AT NOVARTIS

The global pharmaceutical company's ongoing redesign of its go-to-market commercial and revenue delivery organisation provides an example of how multiple activators reinforce each other.

The redesign supports the company's objective of becoming a more customer-focused, data-driven company that is better able to target and drive adoption of its products in-market so that more patients get the treatment they need faster. The aims of the new organisation design include improving end-to-end customer experience, addressing not only how drugs are marketed and sold, but also how to influence stakeholder behaviour through better awareness, developing novel commercial partnerships to enhance access, enabling health care professionals to interact in a way that suits them and influencing patient behaviour to improve health outcomes by enhancing adherence to treatment plans.

The following aspects of the design demonstrate how activation is happening in practice:

The right connections

- Moving people to the work rather than moving the work to the people. In practice this means employees in country organisations are organised as flexible resource pools. Previously, dedicated teams in functions such as sales would support specific therapeutic areas. Leaders would control all the resources needed to deliver their business results. In the new model, country leadership teams agree outcomes for the business and resources are allocated flexibly to deliver against these outcomes.
- A single interface with the customer acting as a coordination point for interactions. Previously, a customer might interface with multiple connections in the business. Customer experience is designed end-to-end using design thinking, iteration, and service design techniques.
- Maximum four layers of hierarchy in any country.
- Commonality of design (~70%) across markets but with enough flexibility to adapt to the needs of local healthcare systems. Healthcare systems in different countries work differently and the design needs to support this.

The right conversations

- Clarification of accountabilities at country level. The country leadership team will be accountable for executing on agreed business and customer outcomes. The redesign means country CEOs are required to be more customer-oriented, outward facing and commercial. The country leadership team has greater power over how the customer experience is defined and executed, and has joint and several liability for business performance. They must pull together the necessary resources in terms of product, market and customer expertise to drive execution of planned outcomes for customers.

"Moving people to the work rather than moving the work to the people. In practice this means employees in country organisations are organised as flexible resource pools".

- At the global level, targets are set by brand. Country CEOs are responsible for agreeing targets by brand for their business and delivering the P&L for their business. The local leadership team is responsible for determining how those targets are delivered across the local ecosystem. A key tension local leadership teams have to resolve is how to balance global product targets and local in-country customer needs.
- They are experimenting with measuring and incentivising country leadership teams on team-based targets.
- They are also working towards using group-level outcomes across the company's four franchise areas for budgeting and target setting. They plan to break them down into outcomes for each country. For example, an outcome could be to set up the testing infrastructure for a drug which has not yet come to market. Budgets would then be allocated to these outcomes. A 'product owner' is responsible for determining the work breakdown structure that attaches to these outcomes, and defining the 'sprints' required to execute the plan and the resources required. This creates transparency around what results will be delivered to the customer and allows for agility through iteration and adjustment along the way. Budgets would be reprioritised on a flexible and agile basis depending on outcomes achieved. Success would be measured by customer and market outcomes rather than, for example, achievement of sales targets.

The right know-how

- The new organisation requires a shift towards more of an enterprise leadership mindset. The role of the leader is to set strategy, orchestrate performance and build the reputation of Novartis in the marketplace, not to run a large operation. This has been a shift for franchise leaders who are moving from having all the resources at their disposal to run their business globally to trusting that the resource they need to deliver agreed outcomes will be available at the right time. The company's leadership philosophy under CEO Vasant Narasimhan is based on the 'Unboss' concept. An expression of servant leadership, Unboss means turning the traditional hierarchy upside down, so leaders support their team rather than the team supporting the boss.



3.4 DESIGNING FOR STRATEGIC CAPABILITIES

This report has examined how organisations are addressing the core tension of balancing agility and scale. In this final section we consider the organisation design implications of three specific strategic challenges: moving from selling standalone products to solutions-driven business models, designing for innovation, and designing for ecosystems.

DESIGNING FOR SOLUTIONS

The human drive to solve problems and create new products, services, and experiences seems to be in-built. But whether the company is a start-up with a game changing idea or a well-established organisation focused on new features, the challenge is the same. Fast followers copy an existing success formula. Or, in order to stay differentiated, the company creates cost and complexity for itself and overwhelms its customers with features and variations of diminishing value.

The way out is to create 'solutions' in which the combination of products is worth more than the individual components. Internally, this requires more than bundling or a common digital interface. It requires a customer horizontal organisation that cuts across vertical product lines

to anticipate and address customer segment needs. This creates internal complexity, which the leadership team must handle, making the necessary trade-offs to keep it simple and seamless for the customer.

Retail banks have been on this journey for years. Some customers only want a savings account; others want a full relationship including advice and access to third party products.

The automotive industry is going through its biggest and most fundamental shift since Henry Ford installed the first moving assembly line – and it's not just about the shift to electric vehicles. The technology and connectivity in modern cars means that the big car makers have a unique opportunity to completely redefine customer relationships through direct and personalised interactions, additional services (that can be monetised) and use of telemetry and other big data. They are effectively building solutions around the core product. This has not been easy for one of the most traditional industries. New capabilities and customer-focused organisation models have had to be built separately and then gently integrated into the core business.

In the business-to-business arena, Philips Healthcare, a leader in imaging devices, has successfully added in a solutions business that allows a buyer to purchase market leading machines bundled with services such as operational and clinical transformation, experience design and performance analytics services that tie whole systems together.

Even in consumer goods, buyers want customised experiences along with product features. The hair care company, Prose, creates personalised shampoo and conditioner formulas for individuals and sells through a subscription business model. This makes Prose as much a data and platform company as it is a product excellence company. The solutions strategy requires a fine internal balance between technologists, marketers, and product developers.

The shift from products to solutions is not just a challenge for 'traditional' industries. The technology and media sectors are experiencing a similar migration. Apple is going through a shift towards solutions (subscription-based services) and can do this based on the dominance and ubiquity of its core products. Solutions provide the company with a strong annuity revenue stream and further locks in existing customers. Apple has done this by building a new organisation model (and the distinctive capabilities required to be competitive) alongside its traditional hardware business. We can also see the ongoing shift in a range of media companies – the platform (that was previously the core product) has effectively become a commodity and the value is in the packaged solutions and propositions that are being offered to increasingly fickle customers through personalised content.

Two big organisation design changes have to be attended to when making the shift from products to solutions:

- 1. Acknowledge the shift in power:** Solutions require a strong horizontal voice focused on the integrated needs of the customer. This outside-in perspective has to be able to come to the table as an equal with the engineering and innovation focus of product developers.
- 2. Go beyond structure:** In order to make good, fast decisions that balance customer and product, customisation and standardisation, and global brand with local differentiation, new processes and metrics have to be designed particularly in terms of investments, pricing, and definitions of success.

These big changes may be a challenge for organisations that have historically struggled to embrace and adapt to change quickly and easily. Often the most effective way to drive a fundamental shift in value creation is to build, incubate, and scale a separate organisation before integrating into the core organisation model.

DESIGNING FOR INNOVATION

While innovation is a major source of growth for many organisations, it presents a significant design challenge: how to embrace disruptive innovation, even when it is challenging to the established interests of the core business. In their work with client companies, Amy Kates and Greg Kesler have built on Geoffrey Moore's work (set out in *Zone to Win*, 2015) to look specifically at the organisational implications of new ventures.

Established players and start-ups face different organisation design challenges. The established company may be good at buying or incubating new ideas but then finds it hard to connect the maturing innovation to the legacy company. Keep the new product or business separate for too long and it will miss taking advantage of the scale and assets of the core business. Integrate too aggressively and the value of the new capability may be lost as it becomes bogged down in the bureaucracy of the established infrastructure. All the major car companies introducing electric vehicles alongside established internal combustion engine production are facing this challenge.

“While innovation is a major source of growth for many organisations, it presents a significant design challenge: how to embrace disruptive innovation, even when it is challenging to the established interests of the core business”.

For start-ups, the challenges are different. The start up quickly gets to a point where it must add new products to the core success formula or bring the core product to new markets. Either way organisational complexity is introduced. If founders want to keep things simple for too long, they risk missing the window to build the infrastructure and systems that manage risk while creating clear accountabilities and performance expectations. Uber and WeWork are good examples of this challenge of scaling.

This is a particular conundrum for the technology sector. Many of these relatively new organisations have been consistently referenced as attractive places to work because they don't follow the same organisational rules as traditional corporate behemoths. However, as they have grown rapidly due to the success of their core products, the additional scale and complexity this has inevitably created has required them to adopt more of the organisational rules that they originally rebelled against.

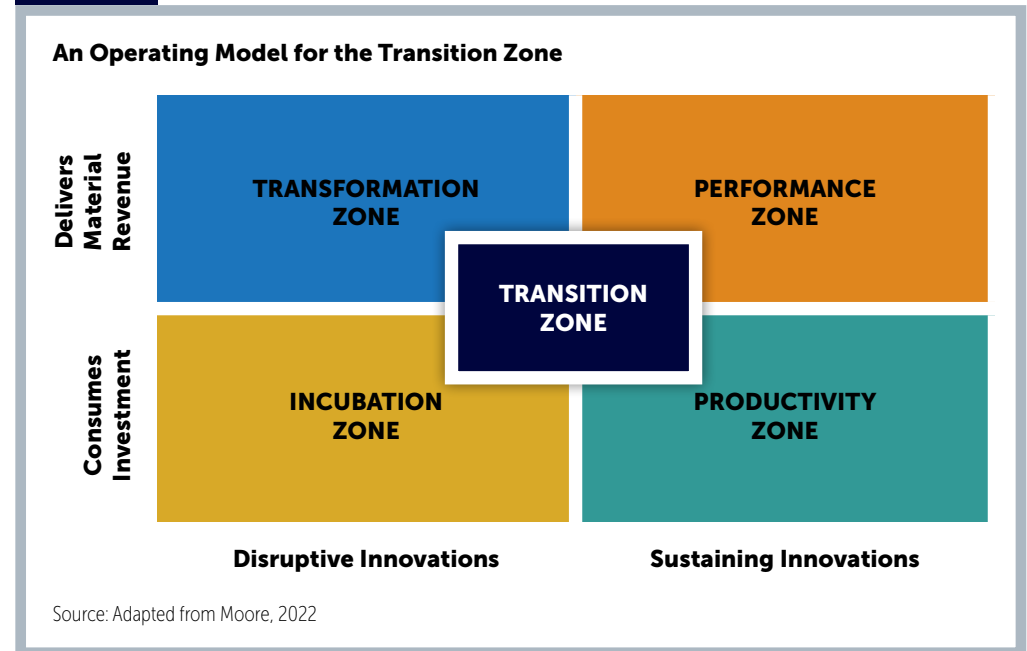
Moore's framework can help companies think through what operating model will be required to successfully develop a new venture to scale and/or integrate a growth business into the core. The framework sets out four 'zones' (see Figure 13 on following page) which describe the different operating models, each with distinct approaches to performance metrics, investment and management controls, required for different growth strategies. On one axis it distinguishes 'disruptive' and 'sustaining' innovations. Disruptive innovations are new businesses that need to be incubated and nurtured until they are ready to be commercialised and scaled. Sustaining innovations focus on making extensions and improvements to the existing business. The model also differentiates between different phases of development of new businesses. Moore contends that companies should separate revenue performance activities, which focus on delivering results, from enabling investments, which are about identifying and developing new ideas which will deliver performance in the medium- to long-term.

The four zones are:

- 1. Performance zone:** This is the engine room for operating established business franchises on proven business models. The focus is on delivering revenue performance in businesses that are sustaining to the status quo.
- 2. Productivity zone:** This contains the enabling functions and capabilities that, while not revenue generating, support performance of the business plan. This could include marketing, engineering, manufacturing, legal and HR. The focus here is on managing the tensions among three core deliverables: efficiency, effectiveness, and compliance.
- 3. Incubation zone:** This enables the development and rapid growth phase of new ventures and markets that are not yet producing material revenue. This is an environment where new businesses can be developed without being stifled by the stringent investment criteria and bureaucratic processes of the established business. Its focus is to position the organisation to catch the next wave as its core markets mature.
- 4. Transformation zone:** This is a place where a disruptive business model in an established enterprise is scaled. The goal is to transition from an immature business on a high growth trajectory which might be delivering uncertain results to a sustainable business delivering consistent high growth and profitable performance. The goal is to scale it rapidly to a stable, material line of business that represents a substantial portion of the company's revenue.

Moore's recent work ([see References](#)) has added a fifth zone – the useful concept of the 'transition zone'. It provides a way to be intentional from an organisation design perspective regarding how to connect new ventures to the established business: structure, roles, processes, metrics, and leadership. The purpose of the transition zone is to transfer a new product from incubation to performance and to integrate it into the company's overall portfolio of offerings. It is a way for companies to market new products through existing sales channels, supported by the existing ecosystem of partners. It moves innovation beyond just being the identification of winning ideas to include the scaling and linkage that are essential to making them viable for the long term.

FIGURE 13



DESIGNING FOR ECOSYSTEMS

Leading and managing the complex external networks that constitute a company's business ecosystem is fast becoming a critical capability in the context of digital transformation. Roland Deiser, Founder and Chairman of the Center for the Future of Organization defines an ecosystem based on a dynamic, systemic understanding of what constitutes the 'extended enterprise' of an organisation.

"A business ecosystem [is] an interdependent value-creation network of an organisation, that reaches beyond its boundaries. It includes customers, suppliers, distributors, technology partners, Joint Ventures, alliances, government agencies, industry associations, and others, who play a role in the overall creation and delivery of a company's products and services. The degree to which a company can actively shape and leverage the dynamics of its business ecosystem is a critical element of competitive advantage. Digital Transformation has moved this challenge to the front of the strategic and organisational agenda".

ROLAND DEISER, FOUNDER OF THE CENTER FOR THE FUTURE OF ORGANIZATION

In his view, this definition implies:

- Interdependence and horizontal network structures are key features of ecosystems, which distinguishes them from traditional linear value chain models.
- Platform businesses are just one form of ecosystems. Ecosystems may include platform elements or not.
- Subsystems of an organisation (such as functional areas, business units, and projects) may act within ecosystems and/or create their own sub-ecosystems.
- Ecosystem analysis is complex and a matter of perspective; it reaches from understanding micro-relationships within and between ecosystem stakeholders to the recognition of global inter-industry dynamics.
- Ecosystems are moving targets. They are fluid and dynamic. New entrants with new technologies may significantly change power equations.

He lists a few focus areas to build these wider ecosystem capabilities:

- Understanding the interdependencies within the ecosystem that inform what an organisation chooses to do itself.
- Ecosystem governance (adapting internal decision-making mechanisms to accommodate external players), strategy (clarifying value contribution of each player), and design (selecting key partners and optimising overall performance).
- Dealing with multiple business ecosystems (driven by ecosystems that belong to various business spaces and/or functional arenas) and assessing and managing boundaries to leverage productive friction.
- Dealing with the multiplicity of relationship and deal types that constitute an ecosystem (including joint ventures, licensing agreements, technology partnerships, open innovation platforms).
- Orchestrating multiple operating models for effectiveness: designing and optimising a cross-organisation architecture for speed, transparency, and flexibility.

As customers require ever more complex and interdependent capabilities, organisations are choosing to access rather than own expertise, for example choosing to explicitly design ecosystems to leverage the possibilities of technology, or address the challenges of the energy transition.

ORGANISATION DESIGN FOR AGILITY

CONCLUSIONS

- ▶ Agility – the capacity to make timely, effective, and sustained organisation changes to maintain competitive performance advantage over the longer-term – is a critical success factor for organisations today. In order to remain nimble and competitive in today's business context, organisations need to achieve two seemingly contradictory objectives: to realise the advantages of operating at a global scale while remaining responsive to customer needs and competitive actions on the ground. This is the core design challenge for organisations today.
- ▶ While there are multiple factors that contribute to agility – individual and leadership capabilities, an effective strategy, responsive management processes and so on – organisation design is one of the fundamental building blocks. It is also a critical skill for HR and organisation leaders to understand and master.
- ▶ Organisation design is the art and science of managing polarities. While there may be established good practices for methods, there are no best practices for outcomes. Each organisation needs to create a purpose-built design that provides the 'both/and' of scale and agility required to execute the business strategy. Frameworks help business leaders to make choices that fit their context and strategic ambition. There are no right or wrong answers around organisational models, only choices that have strengths and limitations.
- ▶ This is why organisational models are so important. They allow us to conceptualise and illustrate how different parts of the organisation can be designed to emphasise either scale or agility. For example, we might consolidate operations and use common practices to leverage our investment in production activities across multiple business units. Alternatively, we could invest in a CRM platform to provide

4.0

CONCLUSIONS AND RECOMMENDATIONS

customer data and insights across a set of geographies. Meanwhile, sales units embedded in their markets might be empowered to make a range of pricing and contract decisions to exploit deep understanding of customers and local conditions. In this case, a design that's fast in the front, big in the back. Being fast in the front allows the company to be responsive to local customer requirements. Being big in the back means capitalising on scale to drive operational effectiveness and efficiency.

Organisation design is not necessarily about making decisions that apply across the entire organisation. Part of the task is to determine where scale or agility can have a disproportionate impact on successful delivery of business outcomes. Choosing to design for agility in one part of the organisation and scale in another does not mean that the overall design is inconsistent or incompatible. The task is to focus on configuring the optimal model, which may mean deploying different design solutions in different parts of the business. This can help make the challenge around these two areas a bit less daunting. For example, a number of consumer goods businesses optimise their models by selectively capitalising on opportunities to drive greater agility across their core product innovation process.

The hard design work is to create the management processes and metrics that connect the model together. Large scale operating model redesign work tends to be an irregular activity, often undertaken following a CEO transition or strategic review. In contrast, activating the operating model is an ongoing challenge, which involves designing and maintaining lateral processes and networks, and ensuring objectives and decision rights are aligned. This is an arena where HR and OD practitioners can have ongoing impact in assisting business leaders to manage the tension of scale and agility.

RECOMMENDATIONS

Our previous research found that organisation design is often an underdeveloped capability for the HR function. Yet HR and OD professionals can play a central role in supporting the business, in particular to make sure leaders pay sufficient attention to organisation design when developing strategy and implementing change.

Our previous research also identified a number of capabilities HR leaders need to develop in order to play a more instrumental role in organisation design. These include developing business and strategic understanding, expertise in the 'technical' elements of organisation design, communications skills and stakeholder management and project and programme management. While this remains true, increasingly the contribution of HR will be to partner with leaders to identify the customer-driven problems to be solved and to adjust the organisational and HR levers to enable solutions to be developed.

We conclude with some recommendations of ways in which HR and OD professionals can assist business leaders as they manage the tensions of scale and agility:

Understand the business model: HR is one of the few functions that has an enterprise-wide view. This means HR is well placed to ensure there is alignment on the relationship of business units, functions and other elements of the organisation design. To support the organisation in optimising the business model requires HR to have a deep understanding of how the organisation works currently. Where does linkage and sharing of assets create value? Where do we need more autonomy? What is the role of each unit in the overall enterprise (make cash, grow, innovate, defend market share, etc.)? Often, there is a wide range of assumptions across the executive team: corporate functions, business units, and market leaders have different perspectives. HR can facilitate business leaders in developing an upfront understanding of and alignment around how the organisation is to support the business model, which can enable them to design the organisation together.

Redefine the role of the centre: Most business leaders are rightly afraid of the words 'shared services' as they have had bad experiences where control over investment, standards, and priorities for functions was over-centralised. A role that HR can play is to encourage leaders to think of the centre (corporate, enterprise, headquarters) as being in service to the business units. What is the small set of policies and boundaries that are needed to manage risk? Where does the centre need to provide deep expertise or scale for transactions? How can it support good decision-making in the business units, rather than make those decisions on their behalf? The key is to change the conversation about the centre to unlock new design thinking.

▶ **Focus on the work of the executive team:** If the business needs some parts of the organisation to focus on scale and leverage, and others to focus on speed and local responsiveness, there will be conflict. In today's sophisticated organisations the work of the top team is more important than ever, and it requires them to work collaboratively as a team, not just a group of individuals. Often executive team members need to slow down and spend more time together listening to signals and data from inside and out. They need to make fewer, bigger decisions that will provide clear purpose and priorities for the rest of the organisation. More deliberate decision-making at the top empowers the rest of the organisation to move fast. However, this also means that leaders have to see their work and success differently. If they have gained the bulk of their experience operating in models where they ran highly autonomous markets or business units, they can struggle with the change in ways of working that is required to enable and embed a more agile organisation model.

▶ **Anchor your efforts on customer and value:** One of the roles the HR leader can play on the executive team is to make sure the voice of the customer is heard in top team discussions. The HR leader can also hold others to account by challenging them to pay sufficient attention to external trends that may require an agile strategic response. It's important for HR professionals to understand or define the critical leverage points that create value and identify the key customer-driven problems that need to be solved for that value to arrive.

▶ **Clarify what 'agility' means for your organisation:** In this research we have distinguished between *agility* as a strategic organisational capability and *Agile* as a set of project management processes which deliver work in a speedy and customer-focused way. A lot of the airtime around agility tends to focus on these project management processes, characterised by rapid experimentation and prototyping, using terminology such as 'sprints', 'squads' and 'backlogs'. While these processes can be important enablers, designing the organisation for agility needs to focus on developing the core organisation and leadership capabilities that enable the organisation to make timely, effective, and sustained organisation changes that support long-term performance advantage.

▶ **Focus on designing the organisational elements that support agility:** These include:

- Bringing together cross-functional teams. Identify the key capabilities that need to come together to solve the customer problem (whether technology, product, sales, operations, etc.) and then look at how they can collaborate better.
- Creating horizontal networks. Once you know the capabilities you need to bring together, consider whether this can be done through formal or informal

networks, does it require structural changes or are there things (such as KPIs, skills, leadership priorities, etc.) that are getting in the way of collaborating today.

- Funding. Understanding the flow of money and how capital is allocated and how that helps or hinders your approach to cross-functional customer-driven agile working can help accelerate the adoption of agile.
- Data and Analytics. Identifying how data needs to be gathered, stored, analysed and used to generate insights informs the choices around how to best leverage the potential of data and analytics to build the required capabilities.
- Adapt HR levers. Leveraging the formal organisation and HR processes to create mechanisms within it for flexible resourcing, ongoing performance management and coaching, career development, leadership development and skill building can all accelerate the management capability of agility.
- Look for organisation reinforcing mechanisms to proactively address misalignments. Identifying barriers to adoption (often by using listening techniques) and using existing organisational symbols and routines (leadership messaging, meeting agendas, leadership townhalls, company celebrations, investor presentations, employee awards, etc.) to build new habits and routines are powerful ways to build an atmosphere of trust which is considered the bedrock of agility.

▶ **Start small:** Smaller experiments with quick feedback loops using sprints are a good way to test viability, incorporate learnings and demonstrate progress. These can be used to test out novel organisation designs on a small scale before rolling out more widely across the organisation.

▶ **Find ways to engage employees:** The shift to hybrid working has demonstrated the value of engaging the wider organisation in developing the future of work. Consider how to tap into the wider employee population, for example through hackathons or tapping into employee networks, to increase the effectiveness of the organisation design and develop specific solutions.

▶ **Consider the implications for leadership capability:** The demands of leaders continue to change. Designing for agility requires leaders to develop their capacity to handle complexity, work collaboratively, lead hybrid teams purposefully by enabling others, and create organisation capacity to adapt and respond when the way forward is not clear. It's essential for leadership development to keep up with the changing business context and evolving demands of leaders. It may be necessary to rethink your criteria for selecting future leaders and your strategies for developing them.

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