

DESIGNING ADAPTABLE ORGANISATIONS FOR TOMORROW'S CHALLENGES

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

Amy Kates, Greg Kesler and Gillian Pillans, Report Authors

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COMMENTARY ON CRF'S RESEARCH FINDINGS

This timely and robust report calls out the unprecedented challenges that organisations, today, are facing. Digital disruption, complexity and connectedness are ubiquitous themes throughout. Organisations must learn to adapt. They must be responsive to ever-evolving business strategies, as well as help their people flourish during change.

Nowhere is change happening more rapidly than in digital transformation. To respond effectively, businesses need faster organisation design cycles. As the report concludes, it is no longer sufficient to rely on the unfreeze-change-refreeze approach to design. Instead, a process of continuous change is needed – one that is driven by in-house HR teams and seeks to constantly adjust designs in response to evolving strategy.

This continual cycle of organisation design is a new, Board-level mandate for HR, but it is not a common strength. Worryingly, only 39% of research participants feel they have strong organisation design skills within HR. What a missed opportunity for HR to take a more central role in the development of the organisation. Given 89% of respondents have recently gone through or are still going through a reorganisation, and a further 68% expect more change in the next two years, building capability in this area should be of paramount importance.

When it comes to developing capability in organisation design, the report emphasises how today's practice involves much more than reporting lines, organisation charts or spans and layers. Organisations are dynamic ecosystems, made up of many interconnected elements, succinctly embodied in Galbraith's STAR model: strategy, structure, processes, reward systems and people practices. Effective design considers all the organisational elements, holistically, with all their interdependencies, and makes changes systemically.

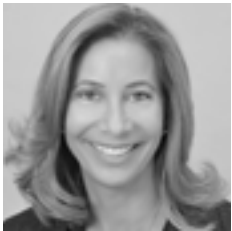
Effective design also addresses the inherent tensions that arise from business strategy. Where strategy is complicated – such as balancing the need for agility and customer intimacy against operational scale – then the organisation will be equally as complex to ensure the strategy is realised. The design solution lies in creatively configuring the organisation across multi-dimensions, to devolve or centralise activities to deliver local innovation or specialisation as needed.

Given the growing demand to design more adaptable organisations, the question remains 'how' HR teams can step up to this challenge. Some of my tried and tested recommendations would be to:

1. Work proactively with business leaders to understand and document the strategy. Translate strategy into prioritised design criteria and principles that will shape the operating model. Manage inherent tensions by running a process to understand the differing priorities, then drive alignment and address through the organisation design.
2. Scrap the analogue, 2-D approach to organisation design typically done in Excel and PowerPoint. Instead, today's organisational systems demand smart visualisation and modelling tools to bring to life the interplays between every element of the organisation.
3. Drill down from macro operating model design to micro role design. Align business goals to individual objectives, create accountability for work and develop competencies to succeed. Create roles with purpose where individuals can flourish.
4. Methodically calculate the number of FTE positions required for each role. As the business grows and changes and that number invariably fluctuates, organisation design naturally morphs into workforce planning to fulfil the organisational needs.

Although digitalisation is accelerating change and adding complexity in organisations, it can also form a key part of the solution. Smart adoption of technology will help build capability and better equip HR to adapt the organisation to face today's, and tomorrow's, challenges.

Rupert Morrison, CEO of OrgVue and Concentra Analytics, and author of *Data-Driven Organization Design*



ABOUT THE AUTHORS

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ACKNOWLEDGEMENTS

The authors would like to thank all the research participants, who generously gave their time and shared their insights. Research participants are listed in the Appendix. Thanks also to Jane Simms for editing the report.

CRF would like to thank KPMG and OrgVue for sponsoring this research.

ABOUT CRF

Our purpose is to increase the effectiveness of the HR function, in order to drive sustained organisational performance, through developing the capability of HR professionals. With a network of over 200 leading organisations, we continue to grow as the respected focal point and knowledge source for improving corporate and individual performance.

We inform, discuss and guide our members on how to enhance their personal capability, those of their colleagues and, in turn, the effectiveness of the function.

We explore topics through an **evidence-based lens**. This leads us to critique existing practices with an ambition and desire to progress the influence and impact the function delivers to the business. Our approach is professionally and informally rooted in the principle that **adults learn through doing, discussion, reflection and the interaction with others**.

What CRF stands for

- We are alert to the political, economic, technological and social environment in which businesses operate, the continuous uncertainty and potential for game changing-events.
- We understand organisations, the imperatives of robust strategy, agility in implementation and persistence in seeking operational excellence.
- We are acutely aware of the role of people in organisations, the relationship between them, and the systems and processes which bind them together.

For more details on how your organisation can benefit from CRF membership please contact Richard Hargreaves, Commercial Director, on +44 (0) 20 3457 2640 or at richard@crforum.co.uk. Alternatively, please visit our website at www.crforum.co.uk.

EXECUTIVE SUMMARY

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

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

1. The context for organisations today is one of complexity, interconnectedness, and digital disruption. Large global organisations have to maintain competitiveness by achieving a balance between pursuing growth, innovation, and responsiveness to customers on the one hand, and maximising efficiency and the benefits of operating at a global scale on the other. They also have to rethink business strategies and operating models as we shift towards a digital economy. Having an effective organisation design that allows firms to sense and respond rapidly to market changes is an important source of sustainable competitive advantage. Organisation design is a critical capability that organisations need to build in order to be adaptable in the face of today’s – and tomorrow’s – challenges.
2. Organisation design involves configuring structures, processes, reward systems, and people practices and policies to create an effective organisation capable of executing the business strategy. Organisation design has to start with the business strategy, and is about much more than structures and organisation charts. It recognises that organisations are dynamic systems, and all elements of the design have to work coherently together to deliver the strategy. The complexity of the organisation design needs to reflect the complexity of the business strategy: an effective design cannot be more simple than the strategy it has to enable.
3. Continuous change is now the norm for most organisations. 89% of respondents to our survey said their organisation had either recently reorganised or had a reorganisation underway; 68% expect a significant business restructure in the next two years. The implication is that organisation design is a skill that all businesses need to develop internally: in this context the organisation design needs to be kept under ongoing review.
4. Organisation designs are typically highly complex. Virtually all large organisations operate some form of matrix, and work gets done as much through lateral management processes, networks, and forums that cross organisational silos, as through the vertical hierarchy. These lateral connections need to be purposefully designed with as much care as the operating units of the organisation.
5. The fundamental design issue for organisations today is how to resolve a core tension: balancing the need for agility and responsiveness to customer needs, with achieving the benefits of operating at global scale. This is not a question of choosing one or the other. Organisations need to keep agility and scale in balance in different parts of the organisation. This means making informed choices about which activities to devolve to local markets in order to stimulate local innovation, and which should be led centrally in order to achieve specialisation and scale. Three key elements of organisation design can be deployed to address this tension:
 - a. Building networks and lateral connections that cut across structural boundaries.
 - b. Fostering an ‘enterprise’ mindset that puts the longer-term needs of the organisation ahead of the more immediate concerns of individual business units or functions.
 - c. Rethinking the role of the centre, from ‘centralised’ to ‘centre-led’. The centre becomes an enabler that builds expertise and makes connections across organisational boundaries, not just an overhead.
6. Our survey showed that building digital capability is the top organisation design topic for large organisations currently,

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

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

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

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

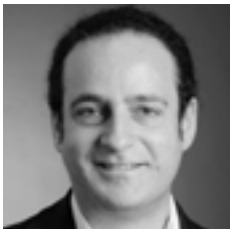
- a. Making sure that each layer in the structure is uniquely value-adding, thereby reducing complexity and speeding up decision making.
- b. Creating innovation and execution networks to enable collaboration and build agility into the design.
- c. Designing business handshakes that set interlocked plans between key players in the matrix, and define what results will be delivered and how.
- d. Defining power, governance and decision making mechanisms that

strike the right balance between global, local and functional influence.

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

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

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



COMMENTARY ON CRF'S RESEARCH FINDINGS

The findings of this report strongly mirror what we hear from our clients about their current organisation design challenges. We believe that organisation design tools provide a versatile and powerful means to signal what matters and how work should be done in organisations. This means that organisation design is relevant to a broad range of people including leaders, organisation design practitioners, programme managers and HR.

But translating insights and leading practices into practical actions for leaders and HR teams remains difficult. Building on the recommendations of this report, we have identified seven practical actions for individuals in organisations to enhance their understanding of organisation design.

1. Invest in understanding digital. A fantastic range of resources are available to build digital capability and understanding. Some of the choices might include investing time with your own technologists, or learning about some of the straightforward software development or channel analysis tools. We have seen profound shifts in thinking and understanding in clients where HR teams and senior executives have learnt basic coding skills.
2. Immerse in the heart of the business. Spending time with your key stakeholders, your customers, the supply chain, or your front line allows you to harvest insights about what works and what makes your business unique. Unstructured approaches such as work shadowing, as well as structured data capture approaches both have their merits. These insights can directly feed into organisation design principles and options, helping ensure your organisation design will work in practice.
3. Act on selective insights. No single organisation design can successfully address the full range of insights presented in this report. Picking out a small number of particularly relevant or helpful insights and developing an organisation design based on them will produce better outcomes than trying to incorporate a broad range of ideas, not all of which may be relevant to a single organisation.
4. Consider your standing OD capability. Over recent years we have seen a great increase in the emphasis on organisations building internal capability and governance for Organisation Design. This doesn't necessarily require a permanent OD team – it could be an assessment of where existing skills and processes sit within HR, Strategy or Finance. Design governance can be as explicit as a design authority, or can be more subtly incorporated into programme gateways, workforce planning, annual budgeting and strategy execution. An assessment of internal OD skills and governance can rapidly highlight strengths and opportunities.
5. Think and act broadly. A key message from this research is that Organisation Design is more than structures, spans and layers. Experiment with combining different skill sets into Organisation Design projects such as reward, culture change and workforce planning as well as more unusual domains such as digital technologists, product designers and strategists.
6. Invest in organisational experiments. Organisation design work can be complex, and there is a temptation to start by addressing the needs of the whole organisation. By taking a more agile approach, starting with discrete teams where there is a desire for change, it is possible to build confidence, capability and knowledge of what works best for each organisation.
7. Design for implementation. Involve the people that will be responsible for successful implementation throughout the design process. In particular, involve as many people from the teams that are being redesigned as is feasible. The organisation design projects I'm most proud of are the ones where implementation has been driven by grass-roots support for and engagement with the changes.

Steve Nathan, People Consulting, KPMG

01

THE CONTEXT FOR ORGANISATION DESIGN

In this chapter we set the scene for organisation design. We position the key challenges organisations face in creating an organisation design that allows them to execute business strategy effectively, while enabling both growth and efficiency. We also review the results of the CRF member survey.

TOPICS COVERED

1.1	WHY DOES ORGANISATION DESIGN MATTER?	10
1.2	CRF SURVEY FINDINGS	11
1.3	STRUCTURE OF THIS REPORT	12

“THE KEY DOES NOT LIE IN TRANSFORMING THE ORGANISATION’S STRUCTURE, SYSTEMS AND PROCESSES FROM ONE STATIC STATE TO ANOTHER. RATHER, LEADERSHIP MUST RECOGNISE THAT ORGANISATIONS FUNCTION MORE LIKE COMPLEX ADAPTIVE ORGANISMS THAN MACHINES, AND APPLY A MORE HOLISTIC AND SYSTEMIC APPROACH.”

Tony O’Driscoll, Global Head, Duke CE Labs

For large, multinational businesses, the world has never been more complex. Not only do they have to fend off competitors in local markets while achieving global scale and efficiency, they also have to do this in an environment of rapidly evolving technology, growing interconnectedness, disruptive competition, and the rise of the digital economy.

The purpose of this report is to examine the role that organisation design can play in helping organisations adapt and remain competitive in this context. We examine the latest thinking in the field and consider the approaches that large complex organisations are taking to resolve the tensions inherent in their designs. As we have undertaken our research we have identified a number of common themes across organisations in different industry sectors, so we are focusing our analysis on these areas in particular.

Organisation design is not an exact science. It is a difficult and complex subject, combining issues of strategy, capabilities, structure, relationships, processes and people. The solution will be different for every organisation, and must be driven by the business strategy and objectives. There will always be a number of possible solutions, each involving some element of compromise. Our intention is to help you reflect on the trade-offs you might have to make in your organisation through highlighting the concepts underpinning organisation design, providing practical examples of the choices organisations are making, and sharing the lessons they have learned along the way.

Organisation design as a field of management thinking was conceived in more predictable times than today. More fundamentally, the old idea of the organisation as a machine is becoming obsolete. Today we need to think of the organisation as a dynamic organism – a system powered by internal and external networks, teams and relationships, not just structure, hierarchy and mechanistic processes. The pursuit of agility – the ability to sense and respond rapidly to changes in the competitive environment – is one of the most important organisation design challenges companies face today.

What do we actually mean by ‘digital’?

The digital strategy can encompass a range of elements including the following.

- Improving engagement with customers through digital and social media channels and digital marketing.
- Digitising products and services.
- Digitising the supply chain or internal processes.
- Building an e-commerce business or other digital platforms.

1.1

WHY DOES ORGANISATION DESIGN MATTER?

The emergence of the digital economy (see the box for a definition of ‘digital’) has elevated organisation design as a priority for executive teams. How to compete in the digital space, how to foster innovation and build the capabilities required to create competitive advantage, and what the optimal organisation is to realise the digital strategy, have become hot topics for businesses across all sectors.

The design of organisations today is much more complex than it was 20 years ago. These days, virtually all large organisations operate some form of matrix. 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 good news is that although digital increases organisational complexity, technology also helps organisations manage complexity more effectively through building networks and connecting people.

Getting the organisation design right is challenging work, but it is also extremely important, in terms of both delivering the business objectives and in creating the context for people to do their best work and thrive. The challenge is particularly acute for HR, because organisation design is not a deliberately developed strength for most HR functions. Historically, HR has tended to focus more on the people who work in the organisation rather than on the

organisation itself. But good people can easily be quashed by a poorly designed organisation.

One of the key conclusions of this research is that organisation design has moved from being a process of unfreeze-change-refreeze to a process of continuous change. Given growing complexity and the accelerating pace of change, it's no longer an option to review the organisation design every few years. Instead you need to build in-house capability to evaluate the effectiveness of your design and continuously adjust in response to what will be an ever-evolving business strategy.

The HR function has an opportunity to occupy a central role in supporting the development of the organisation itself, not just the people who work there. But to grasp this opportunity it needs a combination of strategic, business, technical and change management skills. It also needs to work in collaboration with other functions such as strategy and finance, and business leaders.

Organisation design tends to be an underdeveloped capability for the HR function. Only 39% of respondents to our survey felt they had strong organisation design capability within HR. Just half (52%) agreed or strongly agreed that business leaders believe their HR organisation is prepared to support them to solve issues around organisation design.

1.2 CRF SURVEY FINDINGS

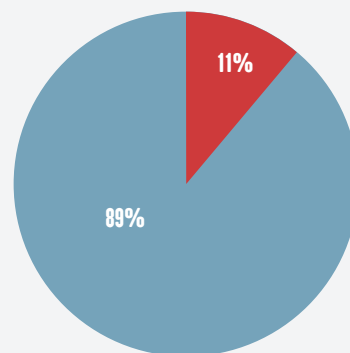
Our survey shows that most organisations have recently undergone, or are expecting to undergo, significant restructuring or organisation redesign. Some 89% of respondents said their organisation had either reorganised during the past three years or were in the process of reorganising, while 68% expected a significant business restructure over the next two years. The main drivers for restructuring cited by respondents included changes in the competitive landscape, the need to grow new business models, building greater organisational agility, getting closer to customers, technology and digital-driven market changes, and cost reduction. Organisation design as a hot business topic looks unlikely to disappear any time soon.

RESEARCH METHOD

This report is based on the following data sources.

- Interviews with 23 practitioners, experts and academics. We list the interviewees in the Appendix.
- An online CRF survey, completed by 164 respondents in November and December 2017. Respondents were predominantly senior HR generalists and OD specialists. Respondents covered a broad range of industry sectors. The majority (58%) worked for organisations with 10,000 employees or more. Some 60% were based in the UK, 25% in Europe, 10% in North America, and the remainder in the rest of the world.
- A review of relevant academic and practitioner literature. The Reading List in the Appendix contains relevant references.

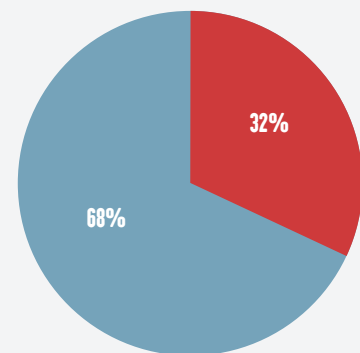
Figure 1: Has your organisation undergone a significant business restructure over the last three years?



■ Yes ■ No

Source: CRF member survey, December 2017

Figure 2: Is your organisation planning a significant restructure over the next two years?



■ Yes ■ No

Source: CRF member survey, December 2017

We asked respondents to our survey to set out the organisation design topics that were most relevant to their business. Top of the list (cited by 41%) was building digital capability. The second most important topic (cited by 39%) was how to design for both agility and scale. Third (32%) was working effectively in the matrix, and fourth (31%) was developing solutions for delivering integrated products, services and/or analytics seamlessly. More 'nuts and bolts' design issues such as governance (8%) and integrating acquisitions (13%) ranked further down the priority list.

1.3 STRUCTURE OF THIS REPORT

In this report we aim to highlight the principles that underpin organisation design – which are fairly constant over time – and show how organisations are applying those principles to address today's strategic priorities.

In chapter 2 we explore the core principles underpinning organisation design – in terms of both *what* to design and *how* to activate the model so all the parts work effectively as a system to deliver the business strategy.

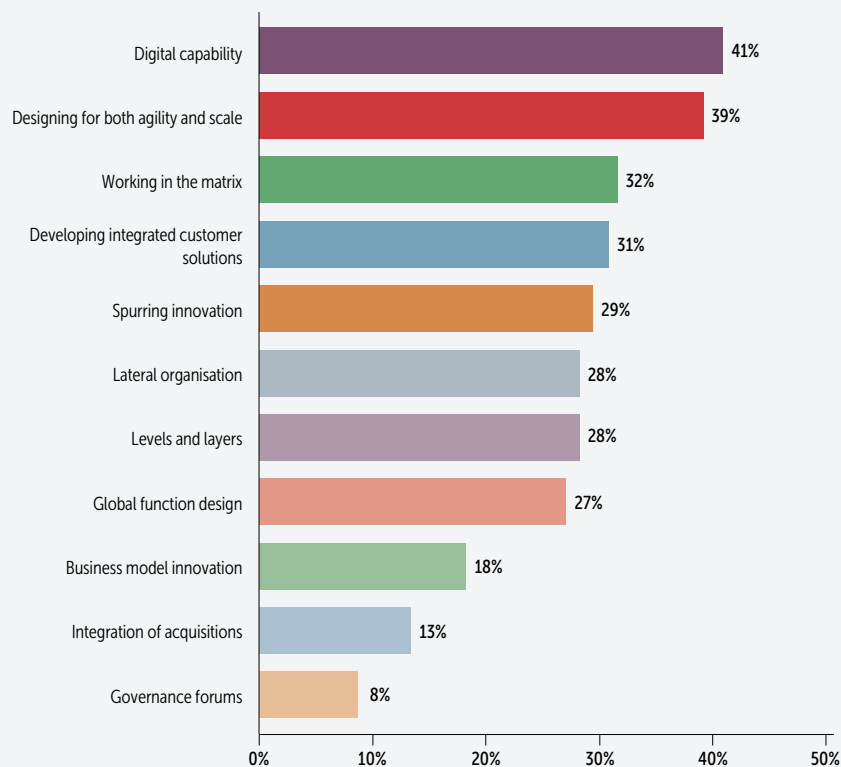
We find that the key tension in organisation design for large complex organisations is balancing the need for agility – being responsive to customer needs – with the need to realise the benefits of global scale. Our core argument – set out in chapter 3 – is that this is not a binary choice: organisations need to keep agility and scale in balance in different parts of the organisation. We also consider how organisations can reshape the role of the centre to help reconcile these competing objectives.

Chapter 4 considers the design implications of three strategic imperatives currently affecting most organisations:

- building digital capability
- moving from a product- to a solutions-driven business model
- balancing the need for efficiency with driving growth.

We conclude with some recommendations for improving organisation design practice.

Figure 3: What organisation design topics are most relevant to your business?



Source: CRF member survey, December 2017

02

DESIGNING AND ACTIVATING AN EFFECTIVE ORGANISATION MODEL

In this chapter we consider the different elements that organisations need to address in order to create a coherent organisation design to execute a chosen business strategy, and to make it work effectively in practice.

TOPICS COVERED

2.1	WHAT IS ORGANISATION DESIGN?	14
2.2	DEFINING THE GLOBAL OPERATING MODEL	15
2.3	ACTIVATING THE OPERATING MODEL	18

This chapter looks at the principles that underpin organisation design: what organisation design is, what we need to attend to in order to develop a coherent design that enables an organisation to deliver its chosen business strategy, and what's required to make the design operate effectively. We focus in particular on the essential role execution and innovation networks play in building agility into the design and in supporting collaboration across the matrix.

2.1 WHAT IS 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)

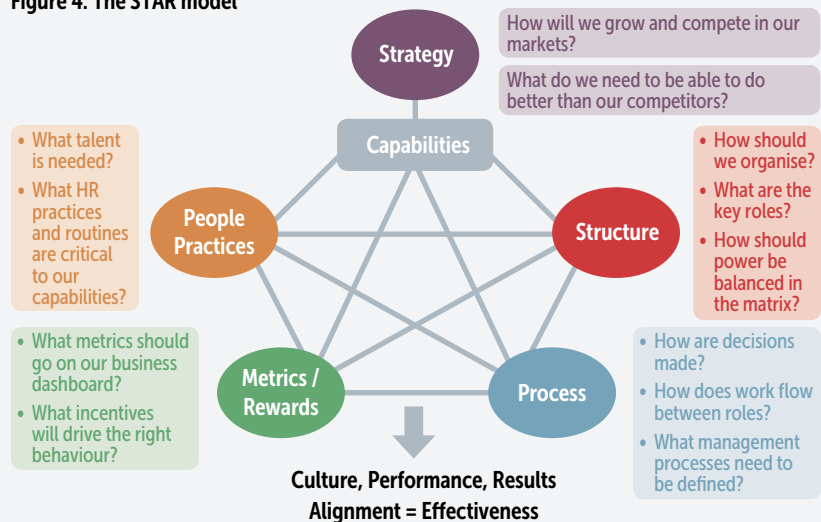
Some key points are as follows.

- 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 structure or organisation charts. It covers formal structures, processes and governance mechanisms, but also encompasses the networks and relationships that enable work to be done.
- The organisation 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

Galbraith's STAR model sets out the key elements that compromise an organisation's design.

Figure 4: The STAR model



Source: Adapted from Galbraith, 1994

1. **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.
2. **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.
3. **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. As organisation structures become ever more complex, lateral processes are becoming the primary vehicle for managing complexity.
4. **Reward systems** address the motivation of people to contribute to organisation goals by linking personal accountabilities to outcomes that drive organisational success.
5. **People practices** influence employees' mindsets, help build the right skills, and are central to the attraction, retention and utilisation of talent.

“IF YOU WANT A SIMPLE ORGANISATION, THEN PURSUE A SIMPLE STRATEGY. BUT IF YOUR GROWTH STRATEGY DEMANDS COMPLEXITY, UNDERSTAND THE ORGANISATIONAL IMPLICATIONS, PRIMARILY AT STRATEGIC INTERSECTIONS. IF YOU EMBRACE THESE TENSIONS AND HELP THE PEOPLE IN YOUR ORGANISATION WORK THROUGH THE COMPLEXITY TO CREATE VALUE, THEN YOU WILL BE REWARDED WITH COMPETITIVE ADVANTAGE.”

Kesler & Kates, 2016

2.2 DEFINING THE GLOBAL OPERATING MODEL

Before embarking on detailed design, it’s important to understand how the different organisational elements come together at a high level to deliver the business strategy.

To successfully execute business strategy you need to build the organisational capabilities that are required to establish and maintain competitive advantage. Organisational capabilities represent the collective skills and expertise that differentiate one organisation from its competitors – the muscles that it has to develop in order to execute its unique strategy. Differentiating capabilities might be, for example, the ability to innovate faster than the competition, develop compelling brands, or build enduring relationships with customers.

The organisation’s operating model is, in essence, the operational design that makes it possible to enact the business strategy. It determines how the organisation is configured to develop and sustain the required organisational capabilities. It underpins how the various elements of the organisation design come together into diverse geographical units, centre-led functional teams, and lines of business to execute complex strategies around the world.

Companies 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).

The operating model needs to define the following things.

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

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 complexity.

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

Integration across the business portfolio

One type of strategic complexity is the degree to which the various units in the

business portfolio are integrated – i.e., to what degree do different parts of the business share resources, and operate common processes and standards? A continuum of the relationship is shown in Figure 5 on page 16, together with some typical organisational indicators.

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?

Attempts to create enterprise-level capabilities – a new digital business platform, for example – are likely to be more complex in operating models towards the right of the continuum, where business units tend to operate independently and fewer activities are co-ordinated laterally across organisational boundaries.

Figure 5: Four types of portfolio integration

	1 Fully Integrated Single Business	2 Closely Related Portfolio	3 Loosely Related Portfolio	4 Holding Co. or Conglomerate
Strategy & Organisation Design	Single strategy guides all P&L units with minor variations	Complementary business portfolio and core strategies with synergies	Diverse, relatively autonomous business with limited synergies	Structuring cheap finance, buying and selling separate assets
Governance	Direction comes from organisational centre All process and practices are common Single culture	Driving scale, common process and policy consistency Some shared function resources for key customers, core technologies, and back end operations	Facilitating some scale benefits and some best practices across otherwise stand-alone businesses (e.g. government relations, technology transfer, back end shared services)	Appointing leaders to run the businesses Business units return financials to parent No common processes Multiple cultures
Leadership Talent	Single talent pool and talent management practices across the company, emphasis on cross-geo and cross-functional experience	High degrees of cross-BU movement of key talent with common processes and metrics for movement	Limited planned movement of talent across units at senior levels, emphasising deep knowledge of each business	Little or no movement of talent across units
Rewards Philosophy	Single design, limited need for variations Central administration	Single design, with variations in practices as necessary Mixed administration	Harmonised variations in design with business unit administration	High variability; no need for any harmonisation
Company Examples	Apple, Cisco, Coca-Cola, Keurig	IBM, Deere & Co., Medtronic, PepsiCo, P&G	GE, Textron, Unilever, United Technologies	ABF, Berkshire Hathaway, 3G

Source: Adapted from Kesler & Kates, 2016

Horizons for growth

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.

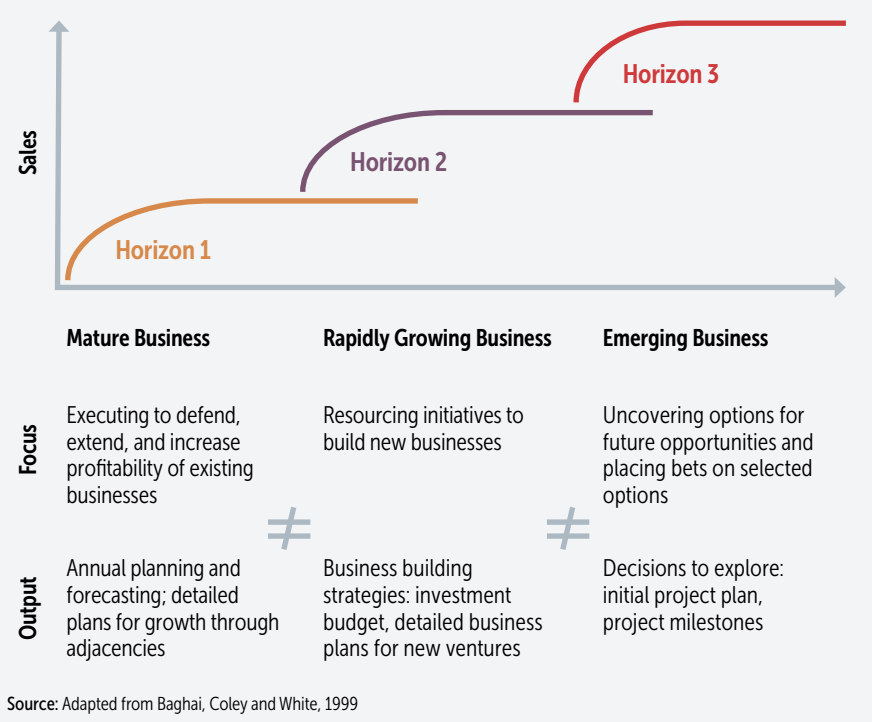
A key tension that growth businesses need to resolve is managing the core business while expanding into new markets. This may require them to develop new capabilities, or to run the emerging business in a different way. The need to manage core and growth businesses simultaneously generates a number of 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?
- 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 need to separate and specialise new capabilities must be balanced with the requirement to keep them connected to core go-to-market and other legacy business processes.

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 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.

Figure 6: Three Time Horizons



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. We discuss this further in section 3.2.

Rewarded complexity	VS	Unrewarded 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.		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.

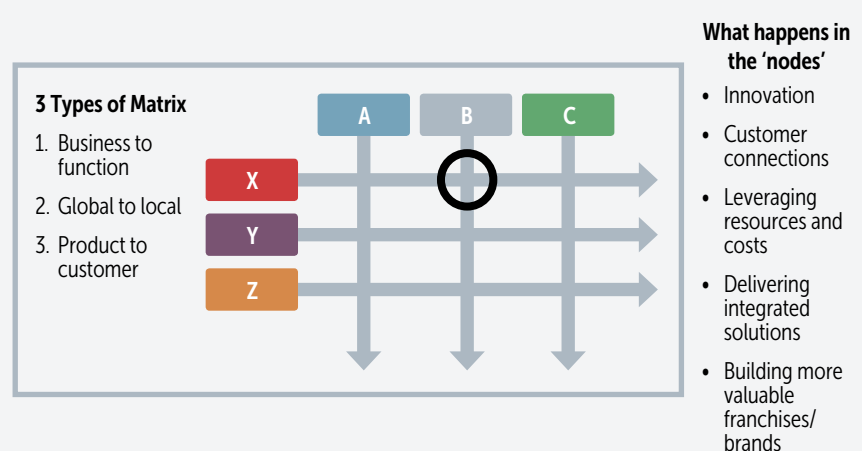
Matrix management as a source of complexity

Virtually all multinational organisations operate some form of matrix, with varying degrees of complexity. 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 market place, 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 have to pay for better serving customer needs. For example, some consumer companies have set up business units to interface seamlessly with retail giants such as Walmart 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.

Figure 7: Value is created in the organisational intersections where different parts of the matrix meet



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

Source: Adapted from Kesler & Kates, 2016

2.3

ACTIVATING THE OPERATING MODEL

Designing the global operating model will only get you so far towards creating an organisation design that delivers its objectives. We often find that a design that looks coherent on paper doesn't work in practice, because one or more key elements have not been correctly activated.

Amy Kates and Greg Kesler have developed a framework – the Five Activators – for thinking holistically about the organisation design choices required to bring the operating model to life. There are two important points to note here.

1. Organisation design is about much more than mapping out the positions or people in the hierarchy. All the elements of the organisation are interdependent and need to be designed as a coherent whole to deliver the business strategy.
2. The organisation design will only be successful if it actually works in practice. It is unlikely that the design will be right first time. Activation goes beyond design – it is an ongoing process of checking, refining, testing and course-correcting.

Kates and Kesler identify a number of common pitfalls that organisations encounter as they seek to operationalise their design.

- Too many layers and duplicated work make the organisation slow and internally focused.
- Over-reliance on structure and hierarchy to co-ordinate and control work adds cost and slows decisions down. While hierarchy is important, it is critical to design horizontal connections, including to partners outside the organisation's boundaries.
- New structural elements – such as global product teams – are added without making the required adjustments elsewhere in the system –to legacy P&L structures or incentive schemes, for example.
- Failure to redefine power dynamics across global business units, regional teams and functional units. The design of a global operating model is not complete until these decision-making ground rules and forums are defined. Executive teams often leave this to chance or allow strong personalities or political forces to fill the void.
- Global functions fail to keep up with the changing shape of the organisation, with the result that they're doing 'yesterday's work' and are out of touch with the real needs of the business.
- Leaders are not equipped or motivated to work effectively in a matrix. Metrics and reward systems don't encourage 'enterprise thinking' – that is, thinking about the whole organisation, rather than individual units or functions. See section 3.3.
- The corporate executive committee acts as a group of individual leaders, each focused on their own business area, instead of taking an enterprise view.

The five activators work in concert to ensure that structure, processes, measures of success and behaviours are all aligned and reinforce each other. They are sorted against three outcomes.

1. The right connections are made so businesses and functions can create value together.
2. The right conversations take place to align objectives, to make effective operating decisions, and to 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.

The right connections

Although we emphasise throughout this report that structure is only one element of organisation design, it is still critical. The task is to define the working connections among global business units and regional or local business units, as well as connections among worldwide functions and the businesses they support. Two of the five activators help to build the right connections into the organisation.

“DRAWING THE ORGANISATION CHART IS NOT ORGANISATION DESIGN. YOU HAVE TO DEFINE HOW WORK FLOWS THROUGH THE ORGANISATION, WHAT ACCOUNTABILITIES PEOPLE HAVE, THE CAPABILITIES YOU NEED AND SO ON. JUST FOCUSING ON BOXES, SPANS AND LAYERS IS DANGEROUS.”

Rupert Morrison, CEO of OrgVue and Concentra Analytics

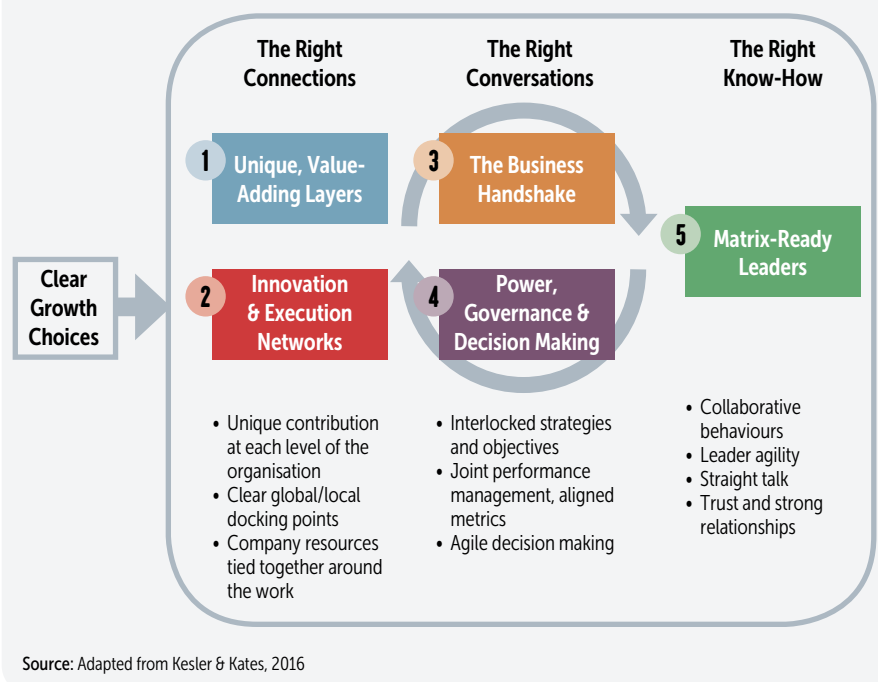
Activator #1: Unique Value-Adding Layers

The fewest possible layers, each with a unique value-adding contribution, will reduce complexity and enable delegation and faster decision-making. Collaboration across the hierarchy is key. It is especially important to enable clear, direct partnerships between global and regional units.

Activator #2: Innovation and Execution Networks

Increasingly we see that instead of centralising activities, companies are using formal networks to co-ordinate activities across the organisation. This allows them to reap the benefits of global scale and expertise while at the same time retain the flexibility to deploy talent to meet specific business objectives. Networks and other lateral mechanisms (see chapter 3) are possibly the most important tools available to organisation designers to resolve the core tension between agility and scale that characterises large global organisations.

Figure 8: The Five Activators



GETTING THE STRUCTURE RIGHT

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. For example, where does responsibility for product innovation lie – with the general manager in the local market close to the customer, or in a central R&D function?

A common question in organisation design is: how many layers should there be in the organisation? Of course, there is no ‘right’ answer: the appropriate number of layers will differ from one organisation to the next. Rather than focusing on achieving the right number of spans and layers, organisations should instead focus on eliminating unrewarded complexity. The following principles apply in designing the layers in the organisation.

- Each layer should add unique value – there should be no overlap in responsibilities between one layer and another or gaps where accountabilities are unclear. Managers at each organisational level should not be doing the work of the level below.
- There should be an ‘order of magnitude’ difference in managerial work between one layer and the next, in terms of both the complexity involved and the time horizon of the work (managers at higher levels in the organisation should be making decisions with longer time horizons).
- One layer – the anchor layer – should be designed as the home of the primary operating units that have delegated authority to make the short- and long-term P&L trade-offs that are best for the business as a whole. If P&L responsibility is delegated at too low a level, local general managers may prioritise short-term local results (by offering short-term price reductions, for instance) that could compromise the organisation’s long-term objectives. But placing P&L accountability too high in the organisation can mean decision-makers are too far removed from the impact of their decisions to make the right choices. The anchor layer is likely to be different for organisations in different industries. For example, in consumer goods, where products tend to be adapted to local tastes, the anchor layer is likely to be much closer to the consumer than it is in, say, a technology company with a global product portfolio.
- Where possible, infrastructure and functional activities such as finance or HR should be consolidated to avoid duplication and maximise productivity.

“THE TRADITIONAL ORGANISATIONAL HIERARCHY THAT SEGMENTED WORK FUNCTIONALLY AND CASCADED INFORMATION FROM TOP TO BOTTOM IS EVOLVING INTO A UBIQUITOUS, FLAT, OPEN NETWORKED ‘WIREARCHY’ THAT EXTENDS WELL BEYOND THE BOUNDARIES OF THE ENTERPRISE.”

Tony O’Driscoll, Global Head, Duke CE Labs

Networks enable collaboration, foster innovation and learning and build agility into the organisation design.

This allows ideas to move not just from the centre to the operating units, but also across business units and geographies. For example, marketers in global brand, category or product teams can be networked to country or regional commercial marketers, and they can work together to create marketing programmes and new product-innovation ideas that can be deployed across international markets.

Execution networks (see the box below for a definition) can drive digital capabilities and shared services across multiple markets, working off a single architecture, while allowing for local flexibility, and leveraging expensive resources. The goal is to achieve high degrees of integration without high degrees of control for work that must be delivered both at speed and at scale.

In chapter 3, we consider specific applications of networks and other lateral organisation design mechanisms that foster organisational agility.

Execution 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.

Innovation 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, for example, through facility design that brings people together informally, innovation forums, rewards for idea generation, or sites for sharing best and promising practices.

Points to consider when setting up networks include the following.

- Working through networks rather than hierarchies requires different leadership capabilities: leaders need to be able to facilitate connections, seek out ideas from field-based units and sell ideas across the organisation through strong lateral influencing skills.
- Although networks are more informal than fixed functions or teams, there is still a need for infrastructure. This includes access to budgets (which can be centralised or distributed) and other resources, and clear decision authorities and processes. Our survey showed that the factor that would have greatest impact in improving the effectiveness of networks is greater clarity around decision rights and processes for decision-making (see Figure 9, on the next page).
- Increasingly, networks need to be designed to take account of the whole ecosystem within which the organisation operates, including external suppliers, business partners and contractors.

- Lateral organisations need to be designed, not allowed to happen by accident. This means thinking about clarity of roles, decision authority, designing the processes that drive the network’s actions, and measures.
- Lateral connections and networks can, however, easily be overused. Sometimes authority should be delegated to a role or organisation unit. When it is diffused for political reasons or lack of trust in the system, the result can be unrewarded complexity, and collaboration overload.

The right conversations

The idea 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 help shape the right conversations. These focus on operating mechanisms, such as annual operating plans and budgets, goal alignment and performance management processes.

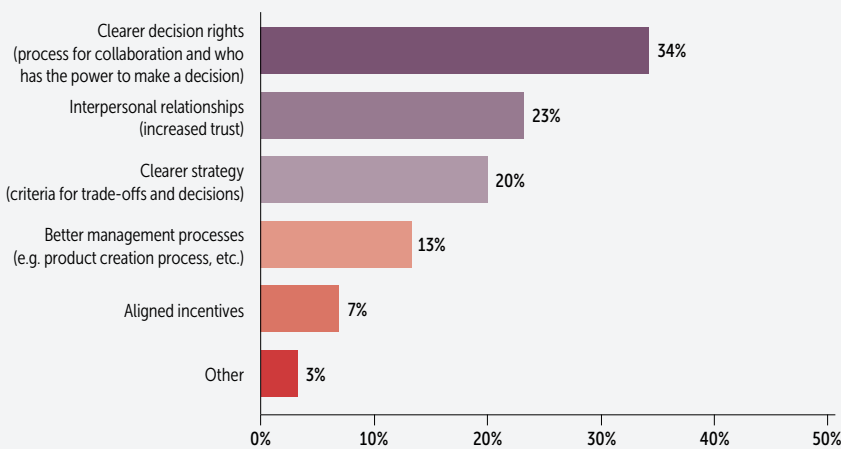
Activator #3: The Business Handshake

Once they’ve identified the anchor layer in the structure (see the box ‘Getting the structure right’ on page 19), organisations need a disciplined effort to formalise the most important partnerships in the nodes in the matrix that generate the most value. The ‘handshake’ is an agreement across organisational boundaries on what results will be delivered and how. The handshake sets interlocked strategies and plans between key players in the

“THE MATRIX THAT UNDERLIES A GLOBAL OPERATING MODEL REQUIRES STRONG LEADERS WHO CAN MANAGE MULTIPLE TEAMS, INFLUENCE PEERS WITHOUT AUTHORITY, AND PROACTIVELY ALIGN COMPETING AGENDAS. THE SUCCESS OF A GLOBAL OPERATING MODEL DEPENDS LARGELY ON COMPETENT LEADERS WHO ARE WILLING AND ABLE TO NAVIGATE THE POWER DYNAMICS INHERENT IN A COMPLEX ORGANISATION.”

Kesler & Kates, 2016

Figure 9: With regard to networks – working across boundaries to tie the organisation together – what do you believe would have the greatest impact on improving the effectiveness of your organisation?



Source: CRF member survey, December 2017

matrix, and establishes performance management conversations to drive results, collaboratively, over time.

Activator #4: Power, Governance, and Decision Making

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.

Activator #5: 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 take into account what’s now 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 fail to 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.

For example, parcel delivery company UPS has a commercial co-ordination role that’s responsible for supporting and coaching country managers and facilitating trade across borders. It’s a big role that can be a springboard to greater career progression, and the company uses it as an assignment to help senior leaders to hone their matrix management skills.

As well as building matrix leadership skills through formal job assignments, you can also develop talent more informally through lateral elements – such as networks and communities. For example, high profile, strategically important projects that have a high degree of accountability, but low formal line authority, can be good development assignments.

In 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.

03

THE CORE TENSION: BALANCING AGILITY AND SCALE

This chapter defines the core tension large, complex organisations have to resolve: how to organise effectively for agility while simultaneously reaping the benefits of scale. We examine three potential solutions to this conundrum: how networks and other lateral connections can be deployed to resolve this tension; how developing an 'enterprise mindset' can help, and how the role of the centre can be reconfigured to achieve the right balance between agility and scale.

TOPICS COVERED

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3.3	FOSTERING AN ENTERPRISE MINDSET	27
3.4	RETHINKING THE ROLE OF THE CENTRE – FROM CENTRALISED TO CENTRE-LED	29

“IT IS OFTEN A REVELATION TO MANAGERS TO LEARN THAT THE TENSION FELT IN THE MATRIX ORGANISATION IS THERE FOR A REASON, AND THAT THE GOAL IS NOT TO ELIMINATE THAT TENSION, BUT TO USE IT TO EXTRACT THE MOST VALUE FROM THE BUSINESS.”

Kesler & Kates, 2016

3.1 DEFINING THE CORE TENSION

The overarching theme of this research is that large complex organisations have to master a core tension in their organisation design – to balance agility and scale. Organisations have always had to make this trade-off, but the difference today is that you can't afford to sacrifice either. Organisations need to be designed in a way that enables both agility *and* scale, at the same time. In the past we might have seen a periodic oscillation between devolving power to local markets in order to increase customer responsiveness and product differentiation, and then consolidation to realise economies of scale. At the best of times this ebb and flow between centralisation and decentralisation is extremely costly and disruptive. But as the pace of change accelerates, the time between cycles grows ever shorter, meaning there's less and less time for one model to bed in before moving on to the next.

The trick is to find a way of reaping the benefits of both agility and scale in different parts of the organisation, while avoiding the disruption and cost of switching the whole organisation from one model to the other. But achieving this 'sweet spot' involves adding complexity to the organisation design. Reconciling the tension between agility and scale means taking a deliberate and granular approach to determining which activities to devolve to local markets in order to be responsive to customers and enable local innovation, and which should be led by the centre in order to achieve specialisation and scale.

Agility

- Agility is the capacity to sense and respond rapidly to changing customer needs, to make decisions rapidly, and to reallocate resource quickly as circumstances change.
- There is a difference between *enterprise agility* and *market agility*. A key question in designing for agility is to decide which to focus on. See the box to the right and box on next page.
- *Enterprise agility* is demonstrated when an organisation can pull different parts of the organisation together across organisational boundaries to develop solutions to complex customer needs, or when it can rapidly flex and redeploy resources as customer needs change. The organisation design is likely to be very fluid and dynamic, and based on reconfigurable project teams, specialisation in centre-led functions, and less dedicated in-country resource.
- *Market agility* occurs when local business units can adapt rapidly to local needs. This means devolving decision-making and resources as close to the customer as possible, and creating the capability to innovate in the local market. Jochen Mueller, Vice-President Human Resources at UPS Europe, summarised the challenge: "Many of our competitors are small, local companies, with a low overhead. We have to both innovate at the local level and keep our prices competitive. It's a difficult balance between maintaining high standards in areas such as IT security and compliance, while running a tight

Enterprise agility in action

Avanade is a global IT consulting services organisation with 30,000 employees across 20 countries. The organisation has been designed explicitly to facilitate agile use of resources and operate with flexibility and pace. Avanade recently eliminated job titles and grades that denote hierarchy and position for its top 250 leaders. "It's removed some unnecessary constraints to our organisation design, given us greater flexibility in how we deploy people across the business, and removed unnecessary bureaucracy," said Caroline Fanning, Executive, Human Resources Europe. This has also meant removing salary grades and replacing them with individual job-based pricing determined by the complexity and contribution of individual roles.

Removing grades gives the organisation greater flexibility to manage senior people as an enterprise resource. But it can also mean that individuals have less clearly defined career paths, and the potential for promotion by moving grades has also been removed. "Career progression now might mean an increase in complexity or impact rather than specific geographic responsibility or moving up a grade," said Fanning.

Market agility in action

Unilever, in common with other global FMCG businesses, is seeing significant disruption in its local markets. The benefits of scale, once a source of competitive advantage, are being eroded as local markets fragment, in terms of both customers and competitors. Large global organisations used to be able to use their scale to do things once globally – innovation, for example – and then roll out the same thing in every market. Now competition – and innovation – is increasingly driven by small niche players in local markets.

The challenge for players like Unilever is to manage scale and responsiveness at the same time. It typically means more innovation at the local level, while maintaining strong connections between global and local marketing teams. “The days of making one Dove that would sell everywhere have gone,” said Ashish Lall, Talent & Organisation Director, Europe.

The organisation model is changing. In the past Unilever was a combination of many country-based, separate and autonomous companies. In those days shifting to a global category model meant innovation was managed in a global innovation hub within the central marketing function. Marketers who reported into their local country teams would be responsible for local deployment. Now the goal is to bring innovation back into the countries, drawing on the centre if it makes sense to do so. Local teams can launch local innovations without having to demonstrate a benefit for other countries. The controls on such investments have been relaxed. In the past, countries were responsible for deployment, innovation was regional and global, and there was a handshake between country and region/global. Now, geographic silos have been broken down and all marketers report to the global president.

Technology is a key enabler of the new relationships. The business has built digitally-enabled brand communities to connect people who work on the same brand globally, allowing them to share experiences and insights. “It’s about building two-way connections, joining the dots across different geographies. This allows innovation to happen both at global level – where we can achieve scale – and at a local level where we can respond faster,” said Lall. “Connecting in this way means formal reporting lines are less important.”

Underpinning this is a talent and change programme, which aims to boost the marketing capability and change the mindsets of people in local markets so they see themselves as brand owners.

ship and controlling cost to remain competitive. This is one of the biggest challenges we are going to face over the next few years.”

- Managers tend to associate agility with small, focused and highly autonomous local units that can move quickly. But having too many local P&Ls can actually inhibit enterprise agility. Consider Apple, with its very large, functional organisational model, with a single P&L at the top. Apple has historically proved itself to be more agile than competitors with a product-division structure (such as the model Microsoft has recently moved away from), in terms of its ability to anticipate and respond to developments such as cloud-based computing and smartphones as an internet platform. Apple’s organisation design ensures the customer experience is consistent across all products and applications. It also achieves high degrees of leverage through its scale and the popularity of its centrally-led brand.
- The anchor for agility is the customer. Each customer may see a different configuration of the organisation, depending on their needs. This increases internal complexity in the organisation, which is worthwhile if the benefit outweighs the cost. For example, Sony Europe has built a pan-European team specifically to deal with Amazon. “Amazon is critical to our success so our organisation has to reflect how they work,” said Hew Evans, Vice-President, Human Resources.
- Optimising for agility usually means sacrificing some efficiency, because it typically involves building some slack into the system. “Your organisation won’t be optimised for agility if it’s too lean,” said Rupert Morrison, CEO at OrgVue and Concentra Analytics. “You

have to build in some spare capacity so you have resource available to shift around rapidly when priorities change.”

- Designing for agility can mean shifting the axis of the organisation towards functional specialisation. The function becomes the anchor for individuals. The function is responsible for performance management and career development, while day-to-day work happens in flexible multi-functional teams, projects and networks. Andrew Campbell, Director, Ashridge Strategic Management Centre, said: “One trend I’m seeing, which is probably influenced by digitisation, is greater centralisation of support functions. The logic is partly about saving cost, but it’s also about raising functional capability and professionalism.” See the box for an example.
- Shifting the focus towards the function also means that the role of the general manager is changing. They no longer have all the resources they need to deliver a business P&L reporting directly into them. Rather, the general manager has to co-ordinate resources across the matrix, achieving results by influence and negotiation, not direct line responsibility. This represents a substantial mindset shift for many general managers and it has significant implications for the way organisations select and develop future general managers.

CASE NOTES – L’ORÉAL

L’Oréal recently piloted a new organisation design for Marketing in the UK, which it is about to roll out to other countries. The objectives underpinning the new design are to increase agility and specialisation, and to build digital marketing capability in the brand teams. Under the old model, marketers were generalists. As digital marketing, social media and e-commerce have become increasingly important channels, it became necessary to build more specialisation. L’Oréal has restructured the team to place greater emphasis on specialisation. Previously, generalist marketers would co-ordinate all marketing activities across a category (make-up, for example). Now, specialists in areas including online and social brand marketing support brand leaders across a wider range of categories. L’Oréal has also introduced ‘Tribes’ – networks of experts – to drive learning and share insights. This has also led to the creation of new specialist career paths within the function. Whereas previously the way to progress was to become a brand general manager, now there are digital- and social-specialist paths. Since it launched the new organisation, L’Oréal has increased its market share, which, according to Vanessa Palmer, HR Director for UK Consumer Products Division, can be at least partially attributed to the organisation change: “It used to be that we would have one generalist working on each brand. Now we have a team of specialists coming together, each contributing their expertise. Having that focus leads to better quality campaigns.”

Scale

- Scale means realising the synergies that come from specialisation and reach. However, this is not just about cost efficiency. It’s also about growth synergy – building the capability to develop a product or solution once and deploy it multiple times, thus spreading the investment cost over multiple revenue streams. For example, a global drinks business has a digital repository that allows marketing assets such as TV advertisements to be shared globally. In one example, an advertisement that had been successful in the US was picked up and used by the UK team, which led to millions of additional sales of the brand in the UK in the run up to Christmas. This was made possible not only through technology but also through the strong internal brand management network.
- Many large conglomerates are being called on to either demonstrate that the benefits of scale outweigh the costs, or break themselves up. Kraft’s attempted takeover of Unilever in 2017 and the strategic review initiated by John Flannery when he took over recently as CEO of General Electric are recent examples. Large global players struggle to compete with nimble stand-alone local companies on cost grounds alone as they have to account for the overhead of a global group. The additional cost burden of running a global infrastructure has to bring value that goes beyond what it costs.
- To achieve scale, you may not need to hard-wire centralised functions. Some organisations are building formal networks and communities (see section 3.2) to connect people across different parts of the organisation who are working on

“IN MOST GLOBAL COMPANIES THERE ARE MANY DECISIONS THAT REQUIRE SPEED AND LOCAL RESPONSIVENESS, BUT WHICH ALSO BENEFIT FROM BEING ALIGNED WITH A COMMON, GLOBAL AGENDA. THIS CAN BE ACHIEVED THROUGH A SOPHISTICATED USE OF FORMAL NETWORKS, CENTRES OF EXPERTISE, SHARED AGENDAS, STRONG GOVERNANCE, GUARDRAILS AND COMMON PROCESS.”

Kesler & Kates, 2016

the same things. In this way they can align activities and objectives without requiring the people involved to report into a central team. This can be an effective way to reap the advantages of scale while maintaining a high degree of flexibility in the organisation design.

- The ability to scale up is becoming all the more important as organisations look to build new capabilities such as developing a digital business or build an integrated ‘solutions’ platform. Many organisations are finding they can’t achieve critical mass in such new capabilities by investing in a piecemeal way. You have to invest at scale on behalf of the whole group, and concentrate skills, in order to achieve a step-change in capability.

In the rest of this chapter, we focus on three key elements of design that organisation designers need to attend to in order to strike the right balance between agility and scale.

- Networks and other lateral connections.
- Fostering an enterprise mindset.
- Rethinking the role of the centre: from centralised to centre-led.

3.2 NETWORKS AND OTHER LATERAL CONNECTIONS

The need for adaptability in the face of complexity combined with the requirement to achieve leverage across different dimensions of the organisation, means companies need to be proficient in developing and operating a ‘lateral organisation’, where processes and work projects cut across structural boundaries. The lateral organisation allows information and work to cross boundaries, and is a way to create flexibility and adaptability.

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

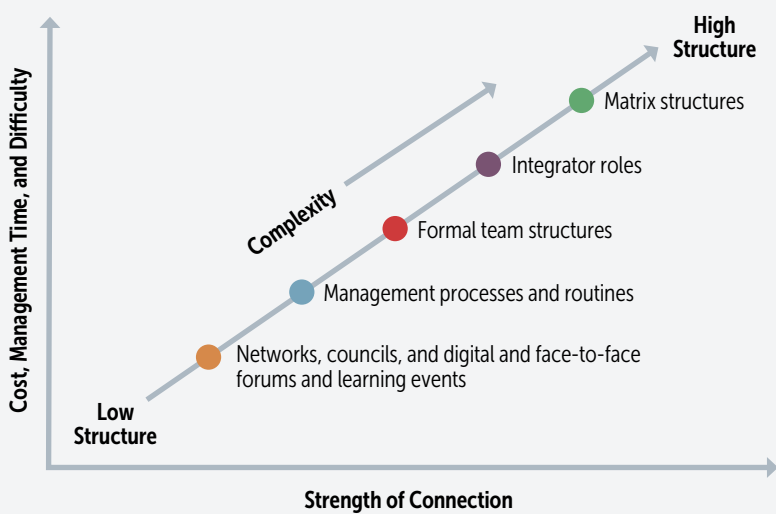
The important message is that lateral structures should be designed with the same rigour as the vertical structure and given formal authority and appropriate accountabilities.

Five Types of Lateral Capabilities

Jay 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 (see Figure 10 on page 27).

- 1. Networks** – interpersonal relationships that co-ordinate work informally.
- 2. Management processes** – move decisions and information through the organisation in a formal flow. For example, global engineering business IMI has built consistency by rolling out a common lean management framework and common processes. “It’s less about defining policies and control processes from the centre and more about building a common mindset and agreed ways of doing things globally,” said Geoff Tranfield, Group HR Director.
- 3. Teams** – more formal cross-unit structures bringing people together to work interdependently and share collective responsibility for outcomes.
- 4. Integrative roles** – co-ordinating or boundary-spanning roles that orchestrate work across units. For example, Tate & Lyle’s Speciality Food

Figure 10: Lateral capabilities sit on a continuum



Source: Adapted from Galbraith, 2002

Ingredients business has created an integrative role to form the bridge between R&D and the commercial teams to manage the launch of new products. Successfully launching a new product requires commercial and technical skills to be built in the regional business units to sell and support the new product. This role has the task of co-ordinating R&D and the regional teams to build those capabilities and maintain focus on commercialising the new product. Success for this role is measured on the performance of a virtual P&L for the new product.

5. Matrix structures – formalise dual or multiple reporting structures in order to manage the conflicting needs of different dimensions of the organisation.

3.3

FOSTERING AN ENTERPRISE MINDSET

Organisational culture is a critical determinant of whether the organisation design works well in practice. Many of the organisations we interviewed for this research are finding that in order to meet objectives such as designing the organisation for agility, taking a more customer centric view, or creating a successful digital business, they need to create more of an 'enterprise mindset'. This means putting the longer-term needs of the enterprise ahead of more immediate concerns around performance of individual business units or functions.

We see that many organisations bring focus to a key business objective, such as building a digital platform, by creating a centre-led team that brings together activities across different parts of the business. Hiring a Chief Digital Officer, a trend we discuss further in chapter 4, as an integrative role to co-ordinate digital activities across business units is an example of this. However, this can be challenging for business unit leaders who are used to calling the shots in their area. Indeed, changing the organisation design without addressing the mindsets required to succeed in the new organisation can be a substantial barrier to success.

For example, one large global organisation we interviewed is implementing a multi-year organisation redesign. Historically, the organisation was run as a series of autonomous country-based units. The new design involves a more globally integrated organisation structure. Support functions such as HR have been brought together into a global service centre.

R&D – which used to happen within each business – has been consolidated at enterprise level. Manufacturing is now run globally.

The role of the country general manager has changed. Previously they ran their businesses more or less autonomously, but now they have to manage a series of dotted-line matrixed relationships.

The organisation design is fairly coherent, but implementation has not progressed as well as the company hoped. One of the barriers has been a lack of clarity around power and authority: from whom should local teams on the ground take their direction – the region or the global organisation? As one interviewee acknowledged: “We have done what we always say you shouldn’t do in organisation design: implement a new structure without being really clear about what it is we’re trying to optimise. The new organisation needs leaders who are enterprise thinkers, and our culture and leadership model hasn’t yet caught up with the design.”

The company is now turning its attention to building collaboration as a leadership capability. This will take some time as leaders have grown through the hierarchy and collaboration has not historically been a key requirement for leadership success. The organisation is beginning to acknowledge that all the different elements of the design need to come together. These include better alignment of objectives; updating talent models and processes to value different behaviours; changing the way general managers are selected, developed and rewarded; investing in helping leaders build their collaborative skills; and making sure leaders are motivated and incentivised to work in a collaborative way. “When you introduce an organisation model that requires a

different mode of operation, based on collaboration and matrix management, your talent models and processes have to catch up. It takes time for these new capabilities to work their way through the system.”

Another organisation chose to develop enterprise-wide thinking among the executive team by assigning ownership of a global process to each of the four key executives. So, in addition to their

regional responsibilities, they each are responsible for running a core business process – such as product innovation – for the benefit of the whole group. The executives are measured and incentivised on their performance against this objective. This serves multiple agendas.

- Brings focus to a strategically important task.

Reward

Reward practices are also an important factor in promoting enterprise-wide thinking. Reward systems should not only be informed by market and internal equity objectives, but also by the capabilities required by the operating model. A key tension is the portion of variable pay that’s driven by individual versus business unit versus corporate performance. There’s an inherent tension between:

- a. the need for a clear link between an individual’s immediate performance and their pay; and
- b. the need to reward collaboration, with more of the incentive focused on business unit or companywide results.

Annual bonus incentives that focus narrowly can undermine collaboration. They are likely to have a more positive effect when they are linked to overall business or business-unit performance and the target can only be achieved by working across boundaries.

Intangible rewards such as promotions are also important. “One of the best ways to drive a change in culture toward more collaboration is in career-movement standards and practice,” (Kesler & Kates, 2016). The leaders who progress should be those who have the ability and mindset for collaborating across boundaries.

Kirsty Gill, EVP, People at technology company Arm, said: “At Arm we have a set of Core Beliefs, adopted across the business, that describe our culture and the way we work. One of those Core Beliefs is ‘We, not I’. That has to be supported consistently in the organisation design. For example, we expect people to innovate through collaboration, so you can’t judge and reward people on a competitive basis – it has to be about collective outcomes. However, you have to reward individuals for their brilliance (‘Be your brilliant self’ is another Core Belief), therefore the answer is not always simple. Similarly, we believe that information is crucial and has to be shared, so we encourage and recognise when people adopt behaviours that support that value.”

“THERE’S ONLY ONE LEGITIMATE ROLE FOR THE CENTRE, WHICH HAS TO BE ABOUT ADDING VALUE. YOU CAN POTENTIALLY CENTRALISE IN WAYS THAT MAKE YOU MORE AGILE BUT YOU HAVE TO FOCUS ON AREAS WHERE PROVIDING CENTRALISED SUPPORT OR A COMMON PLATFORM WILL ENABLE PEOPLE TO DO THEIR WORK FASTER OR BETTER.”

Andrew Campbell, Director, The Ashridge Strategic Management Centre

- Sends a clear message that, as a member of the executive team, you have to both run a successful business unit *and* be an enterprise leader.
- Shows there’s an expectation that leaders will build capability on behalf of the enterprise as a whole, and will be measured accordingly.

CASE NOTES – AVANADE

Avanade’s shift towards a more agile organisation design (discussed in 3.1) is underpinned by a number of organisational elements designed to create a more enterprise-wide mindset.

- The balance of incentives for senior leaders has shifted from country to enterprise performance. “Whereas historically the split may have been 60% local country, 20% region and 20% global, now we are saying that the senior team should be in this together, so now the balance would be more like 70% based on global revenue and profit and 30% personal objectives. This helps incentivise collaboration,” said Fanning.
- Personal objectives target both in-year performance (revenue and profit) and measures related to growing the business. “Executives have different personal metrics depending on what’s going on in their business. They might have targets around growing an incubator business or rotating talent. It sends a strong message that the organisation expects senior leaders to both run their business successfully, but also invest in building new capabilities, and develop talent.”

Cross-enterprise collaboration is encouraged. “We talk a lot about solving problems for Avanade first: solving at a global as well as a local level,” said Fanning.

3.4

RETHINKING THE ROLE OF THE CENTRE – FROM CENTRALISED TO CENTRE-LED

If the core tension for organisation design is how to balance agility and scale, then what role does the centre play in resolving that tension? In chapter 2 we describe how networks and other integrative mechanisms in the organisation design can be deployed to better connect business units and functions, align them around a common agenda, and leverage capabilities in one part of the organisation for the benefit of others. In a similar way, central functions can also act as the connective tissue that builds leverage across the organisation.

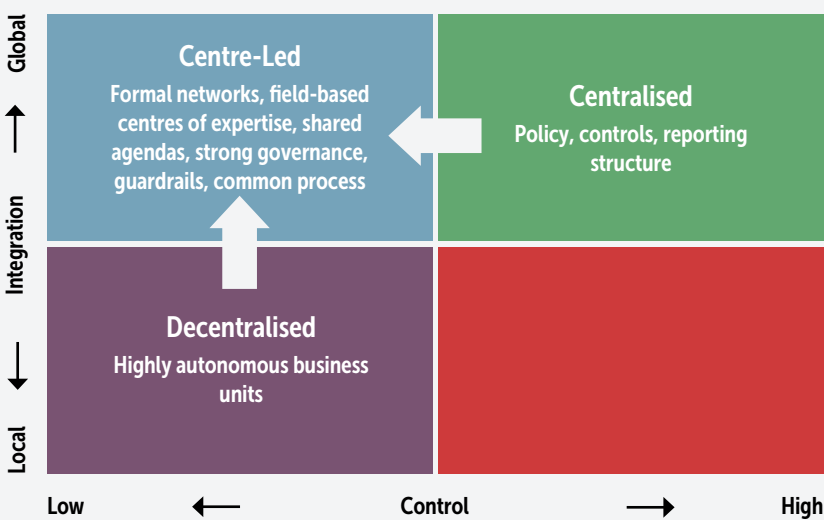
What implications does this have for the design of central functions?

- The centre can add value by creating 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.
- The role of the global function moves towards that of capability builder – masterminding the flow of talent from one business or market to another in order to focus on growth opportunities. This won’t necessarily be achieved by hardwiring the relationships into a solid reporting line.
- 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. One example is Unilever’s HR Intelligence Network, which supports the organisation’s talent analytics activities. This is a community of 60 HR professionals around the world who, although they are not employed as ‘analytics professionals’, have strong analytical capabilities that allow them to guide and advise their colleagues in HR and the business, and help to deliver some analytics projects.
- Organisations are becoming more creative about leaving centres of know-how in geographies, where they remain close to businesses, customers and employees. For example, Avanade has leveraged existing capability in some regions by creating virtual global centres of expertise. Global centres of expertise do not need to be located in headquarters in Seattle.

“THE TERM ‘CENTRE’ DOES NOT HAVE TO REFER TO WORK AND PEOPLE WHO SIT IN CORPORATE OFFICES. COMPANIES ARE BECOMING MORE CREATIVE ABOUT LEAVING CENTRES OF KNOW-HOW OUT IN THE GEOGRAPHIES, WHERE THEY REMAIN CLOSE TO THE BUSINESSES, CUSTOMERS AND EMPLOYEES.”

Kesler & Kates, 2016

Figure 11: Centre-led organisation designs are intended for greater integration, not necessarily control



Source: Kesler & Kates, 2016

CASE NOTES – IMPERIAL BRANDS

Imperial Brands’ perspective on the shifting role of the centre illustrates the dilemmas and trade-offs of a centre-led versus decentralised approach. Imperial Brands has grown through acquisition into a loose federation of independent entities. A process of global standardisation several years ago led to corporate activities being consolidated, with common processes, centralised decision-making, and investment in head office infrastructure. The challenge today is to maintain the framework and consistency that has been achieved by adopting global policies and processes, while devolving more decision-making and accountability to the local markets. “We are adapting the model to find the right balance between agility and standardisation,” said Tim Walker-Jones, Group Reward and Capability Director. “We would never have achieved the gains we did without centralising. Now it’s about increasing local responsiveness by pushing some authority back into the markets. We need to do this while maintaining process standardisation. The challenge is to make each move result in a step change in performance – holding on to what has been achieved while pushing for improvement.”

to give the employee a more seamless experience. Ashish Lall said: “Employees have the same expectations about their relationship with their employer as they do as consumers. For example, if I’m being recruited, I don’t want to have contact with four or five different people from initial screening to onboarding – I just want a single view of the organisation.”

- Central functions can also be instrumental in designing the organisation ‘ecosystem’. Trends such as open innovation, the need for different organisations to collaborate to build platform solutions (discussed in 4.2), and the emergence of external talent platforms such as Upwork mean the boundaries of the organisation are becoming increasingly porous. External connections need to be designed in the same way as internal networks and cross-functional processes. According to Shamus Rae, Head of Innovation, Digital Labour and Cognitive Transformation at KPMG: “There’s a broader range of elements you need to take into consideration in designing the organisation. It’s not just employees and external contractors; we also need to think about the role of the crowd, and the role that AI assistants and bots can play in delivering the work.”
- A key trend over the past 15 years has been the rise of shared services, outsourcing and centres of excellence, which have allowed organisations to centralise activities and realise economies of scale. However, many organisations are rethinking their service models, and one of the drivers of this is technology. Basic services that might previously have been delivered by an outsourced provider based in a low-cost location such as the Philippines or India, can increasingly be delivered by artificial intelligence and bots. Unilever, for example, having entered into a large outsourcing contract with Accenture a decade ago, is now reworking its service model. While it will continue to outsource some services, it will automate others and bring them back in-house. A key driver for this is changing employee expectations. Unilever is redesigning its end-to-end onboarding process

04

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

In this chapter we apply the principles of organisation design to some specific strategic challenges that emerged from our research as priorities for organisations today. These are organising to develop digital capability, moving from a product- to a solution-driven operating model, and resolving the tensions inherent in growing new businesses versus optimising the core business.

TOPICS COVERED

4.1	ORGANISING TO DEVELOP DIGITAL CAPABILITY	32
4.2	THE SHIFT FROM PRODUCT- TO SOLUTIONS-DRIVEN BUSINESS MODELS	35
4.3	GROWING THE NEW VERSUS OPTIMISING THE CORE	36

“THERE ARE ANY NUMBER OF POSSIBLE ANSWERS TO THE QUESTION OF HOW AN ORGANISATION COULD RECONSTITUTE ITS ORGANISATION MODEL AND CRITICAL ROLES IN RESPONSE TO DIGITAL DISRUPTION. THE ONLY LIMIT IS THE DEGREE TO WHICH YOUR THINKING IS HELD CAPTIVE BY THE CONSTRAINTS OF CURRENT PRACTICE.”

Robert Bolton, Partner, People & Change, KPMG

Our research highlighted a core set of key strategic challenges for organisations, which have substantial implications for organisation design. In this chapter we apply some of the principles discussed throughout this report to explore the options, and highlight some examples from our research. In each of these cases the core tension we discuss in chapter 3 – balancing agility and scale – underlies the design choices that organisations have to make. The strategic challenges explored here are as follows.

- Organising to develop digital capability.
- Moving from a product- to a solution-driven operating model.
- Growing the new versus optimising the core.

4.1 ORGANISING TO DEVELOP DIGITAL CAPABILITY

One of the biggest strategic challenges established businesses face is how to adapt to the digital economy. Brand-based businesses such as Nike, which used to sell predominantly through the wholesale market, are now building digital channels that connect them directly with consumers. Business-to-Business (B2B) players are moving away from delivering products towards developing integrated solutions – enabled by smart sensors, artificial intelligence (AI) and data analytics – that address specific customer needs. This raises many intriguing organisation design questions, such as where does the P&L for these services sit, who is accountable, and what is the best way to bring different parts of the organisation together to meet customer needs?

Our survey showed that building digital capability is the top organisation design challenge today. Two-thirds (67%) of survey respondents agreed or strongly agreed with the statement “Finding the right way to organise the digital components of our organisation is a top priority for us right now.”

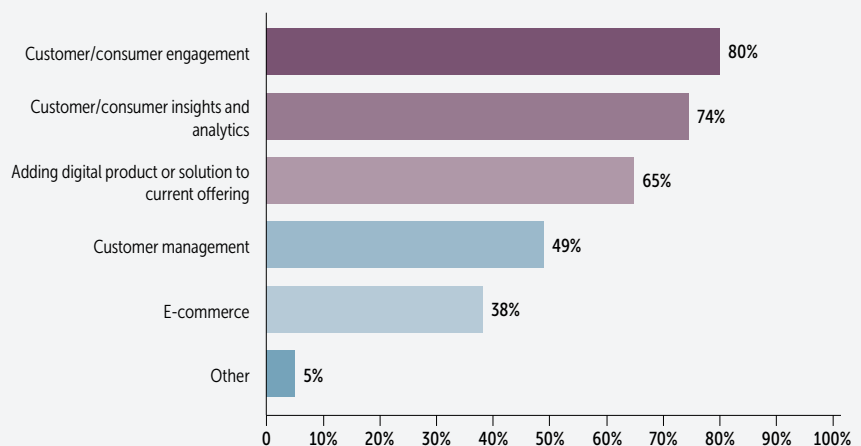
It is also one of the most difficult design challenges. Digital has the potential to

span every aspect of the organisation and business model, changing both external relationships with customers and suppliers and internal processes and connections. Essentially, the same organisation design principles apply for digital as for any other strategic capability, but digital brings some specific tensions.

Our survey found that the most common application of digital is to

enhance relationships with customers. The two most common areas of focus for digital activities were customer/consumer engagement (for 80% of respondents) and customer/consumer insights and analytics (74%). Just under half (49%) have built digital capabilities for customer management. Some 65% are adding digital products or solutions to their current product offering, but only 38% have so far built e-commerce capability, see Figure 12 below.

Figure 12: Our digital capabilities include...

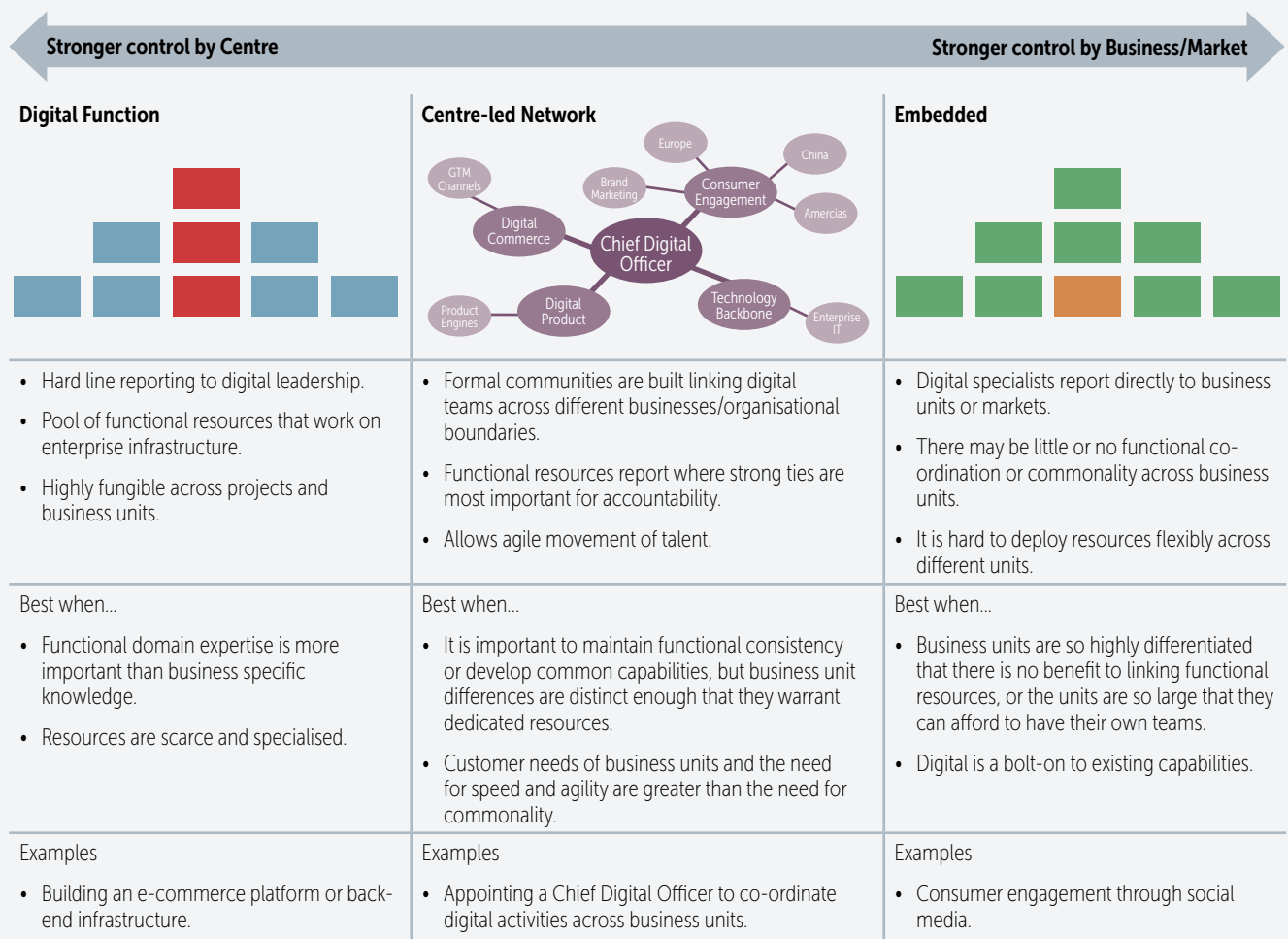


Source: CRF member survey, December 2017

“DIGITAL IS A BIT OF A MEANINGLESS TERM, AND IT’S NOT TERRIBLY HELPFUL TO THINK ABOUT IT AT THE AGGREGATE LEVEL, AS IT MEANS DIFFERENT THINGS FOR DIFFERENT INDUSTRIES. FOR EXAMPLE, DIGITISING THE RELATIONSHIP WITH A CUSTOMER IS A DIFFERENT THING TO DIGITISING MANUFACTURING PROCESSES. YOU HAVE TO BREAK THINGS DOWN TO TASK LEVEL BEFORE YOU CAN REALLY GET A HANDLE ON WHERE THE OPPORTUNITIES FOR DIGITISATION EXIST.”

Andrew Campbell, Director, The Ashridge Strategic Management Centre

Figure 13: Understanding the options for aligning digital organisation governance



Source: Adapted from Kesler & Kates, 2016

Although digital is one of the most challenging aspects of organisation design, our survey found that two-thirds (68%) of respondents felt their organisation was on the right track with their evolving digital model.

Key organisation design questions around organising for digital include the following.

1. What is the appropriate organisation for digital: should we centralise or devolve digital capability?

The degree to which digital functions are run as central functions, co-ordinated more loosely as a network, or devolved to business units will depend on a number of factors, as summarised in Figure 13 above.

2. Do we need a Chief Digital Officer?

Many organisations have chosen to appoint a Chief Digital Officer (CDO) to act as the focal point for digital, and many of those we interviewed made this appointment within the past 18 months. Our survey showed that only 39% of organisations have so far taken this step (see figure 14), but given current trends we expect this to

increase. In the same way that digital can mean a variety of different things, the role of the CDO can look very different from one organisation to the next. Appointing a CDO can be a way of concentrating activity and building expertise, but it also adds another set of organisational interfaces, and in that sense adds complexity to the organisation.

The choice of organisation and the appropriate person to run this function will be driven by a number of considerations. These include the following.

- **Is the primary focus of the CDO role commercial, technical or customer-driven?**
- **Does it own the technology platform (and the people?) or play more of an integrative role?** Does it take ownership and accountability for an enterprise-wide digital platform or act as an integrator for teams that are embedded in business units? The CDO as integrator requires a particular skill-set – a combination of high profile and low ego, and the ability to

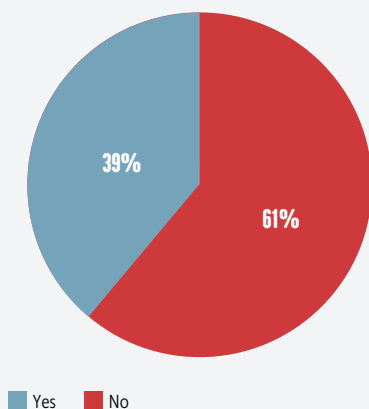
create a community and influence without authority.

- **What are the forums for debating and agreeing digital strategy?** How does digital strategy interlock with business strategies and objectives?
- **How is success measured** – achievement of sales or commercial objectives or delivery of technology, for example?

CASE NOTES – BUILDING A DIGITAL ORGANISATION

- **Rolls-Royce** has recently appointed a CDO to co-ordinate digital strategy across the group, identify opportunities for developing solutions that would work across multiple businesses and develop group-wide solutions either internally or in partnership with external organisations. Each business unit retains a digital team that's responsible for framing digital issues on behalf of their individual business and customers. The company has also set up a digital board, made up of key senior stakeholders in the digital strategy, including the CEO, the heads of each business, the Chief Digital Officer, Chief Technology Officer, Chief People Officer and head of strategy. The purpose of the digital board is to build consensus around the digital strategy, to enhance digital collaboration across the group, and to be a forum for making decisions with an enterprise-wide impact. The board also oversees a central digital fund, which is funded by each of the businesses. For JJ Thakkar, HR Director – Strategic Marketing, these organisational changes have brought focus and clarity to the role of digital in the business strategy, and better co-ordination across the businesses: "Previously, digital meant different things depending on who you spoke to. Now we are much more clear that digital is all about solving customer problems through data and analytics. Having a central digital funding model also means we can take more of an enterprise view of digital investments and we can be more flexible in how we allocate capital."
- A key element of **Hilton's** digital strategy is to build a more direct relationship with customers through digital channels, in particular through the Hilton Honors loyalty programme. This has meant investments in technology, digital marketing and AI. Hilton has recently appointed a Chief Customer Officer, who, as well as having responsibility for the brands and the loyalty programme, is also responsible for technology group-wide, with the Chief Technology Officer as a direct report. Ben Bengougam, Senior Vice-President Human Resources EMEA, said: "This is an organisation change of some substance, both in symbolic and meaningful ways. It's designed to elevate the role of technology in delivering the best possible brand experience for our customers."
- **Thomson Reuters** has recently appointed a Chief Digital Officer. According to Mark Sandham, SVP and Chief Operating Officer, Human Resources, this is not primarily a technology-driven role: its remit is to take a customer-first, outside-in perspective. "The purpose of appointing the CDO was to think about how the organisation needs to be rewired from the perspective of our customers and the experience they have as users of our products."
- Once digital as a capability has been established, the role of the CDO tends to evolve. For example, **The Economist Group** has had a CDO in post for several years, with a team of employees and contractors who support the businesses in implementing their digital strategies and developing digital products. The team runs projects on behalf of business units, but ownership for digital strategy and product definition also sits within the business. Catherine Hearn, Group HR Director, said: "As we have matured, we have moved quite successfully from 'what does digital mean?' to digital being integrated into everything we do." Digital is now not so much a separate business, but more a skillset that runs through all products and services.

Figure 14: We have a Chief Digital Officer for the company



Source: CRF member survey, December 2017

“A COMPANY THAT OFFERS SOLUTIONS MUST BECOME CUSTOMER-CENTRIC.”

Jay Galbraith., 2002

4.2 THE SHIFT FROM PRODUCT- TO SOLUTIONS-DRIVEN BUSINESS MODELS

In the B2B economy, we are seeing a business-model shift away from selling standalone products towards integrated solutions and services delivered as a package to meet specific customer needs. In many cases, this is driven by the rise of the Internet of Things, which makes it possible to build solutions that link smart devices, software and data online to provide customers with an integrated service. The revenue model also shifts from a one-off product purchase to an ongoing service contract, with customers paying for the level of service they use. For example, most of Rolls-Royce’s airline customers prefer to ‘rent’ by the hour rather than purchase their own engines. Each engine is fitted with hundreds of sensors which record every tiny detail about their operation and report any changes in data in real-time to engineers. In addition, each data point has to integrate with data gathered throughout the flight across multiple systems that control and monitor the plane – not all of which are manufactured by Rolls-Royce.

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

1. How to organise the platform or solution

The pattern in many organisations is that individual business units initially take responsibility for building and developing the platform or solution. However, there comes a point where scale becomes critical. This is where we see the creation of centre-led functions or networks that drive

the development on behalf of the whole organisation. This enables the organisation to achieve synergies in cost and expertise by building the capability once on behalf of the whole organisation and deploying it across multiple business units.

This gives rise to a number of design choices.

- Who owns the integrated solutions platform internally (IT, R&D, a business unit)?
- Is the platform run as a separate business unit with its own P&L?
- How are accountabilities split across the various players who contribute? Who gets the credit for solution sales? How do we measure contribution as well as revenue and profit?
- How will product, service and customer teams work together? Do we need to establish integrating mechanisms such as networks, governance structures or an integrator role, to bring together the different parts of the organisation needed to deliver the service?

2. What new capabilities are required?

As well as the technical skills required to build and support the platform or service, it’s often necessary to build new capabilities in the following areas.

- **Solutions selling and account management.** This requires different mindsets and evolving relationships with customers, driven by collaboration, co-creation and joint problem-solving, and less transactional selling.
- **Partner management.** For many organisations, moving to a solutions-driven strategy means working with more players from outside the organisation, in order to link together different components to produce a seamless solution for the customer. In some cases this may even mean collaborating with organisations that would otherwise be viewed as competitors. For example, Rolls-Royce and Siemens are competitors in the power business but are working together to develop integrated systems for hybrid aircraft.
- **Becoming more customer-centric.** The axis of the organisation needs to shift towards the customer. Customer-facing people need to be able to manage the complexity involved in bridging internal organisational boundaries (products, categories, functions etc.) in order to present a single view of the organisation to the customer. Power relationships among business units, markets and functions may need to be redefined and realigned to the customer.
- **Refocusing innovation** away from product-push towards customer- and market-led.

Often, this means developing more of an enterprise-view of talent. A key enabler

of a solutions-driven business model is the ability to use scarce resources flexibly across product teams and geographic markets. HR has a critical role to play in building talent processes that support greater talent mobility across the organisation.

CASE NOTES

Rolls-Royce

As Rolls-Royce's business model shifts from products to integrated systems and services, the organisational implications are wide-ranging.

- **New technical skills:** the company has to build out from its core expertise in engineering to build capability in digital technologies and data analytics.
- **New business model:** shifting from selling products to selling services such as 'power by the hour' means new business models and different capabilities required of sales and general management in particular.
- **New operating models:** the internal configuration of the organisation shifts towards a more centre-led approach to technology and developing digital capability; work increasingly has to be done through networks and partnerships with other organisations.
- **New behaviours:** collaboration, agile ways of working.

Tate & Lyle

Over the past 30 years Tate & Lyle has evolved from a sugar refining business to an ingredients business. In the next stage of evolution, the Speciality Food Ingredients business – one of two divisions at group level – is moving from a product- to a solutions-driven business model.

A key objective of the organisation design is to build in greater market responsiveness. The design had to make the customer experience more seamless, and this meant designing from the perspective of what the customer would see. Whereas previously a customer may have dealt with a number of different Tate & Lyle employees, under the new model there had to be only one key point of contact. This meant integrating some acquisitions more closely in the interests of a seamless customer experience.

The new design also required the business to develop core capability in solutions selling. It has invested in up-skilling the sales force, and has introduced a new competency framework and recruitment processes for sales. According to Sarah Hamilton-Hanna, VP Human Resources, collaboration is an essential skill for the new operating model to work. "We knew collaboration would be key to making the model work, so we started working on this before the reorganisation took place. We made changes to the leadership team, bringing in new people with the right combination of technical, commercial and collaborative skills, before we moved to the new model."

4.3

GROWING THE NEW VERSUS OPTIMISING THE CORE

Established organisations wishing to grow through innovation face a conundrum: how to achieve scale and operational efficiency while simultaneously finding new sources of growth through innovation. The Holy Grail for organisations is to create and execute an 'ambidextrous' system that rewards the development of entirely new capabilities while still driving effectiveness in the core business.

Resolving the tension between the pursuit of new business opportunities and the optimisation of existing core businesses requires organisations to think through a number of design choices.

- Should innovation-focused units be housed in a separate part of the organisation, such as a business unit that's responsible for new product development, or be embedded throughout the organisation?
- Should units that develop and house innovative business models be allowed to operate differently from the rest of the organisation?
- Should innovation be centrally co-ordinated and enabled? Should it emerge from business units?
- How can the organisation ensure innovation processes co-exist with excellent operating processes?
- What mechanisms are required to connect new products and services with the firm's core business?

To some extent, the answers to these questions will be driven by where the new opportunities sit on the three strategic horizons discussed in

DIFFERENTIAL ORGANISATION DESIGN FOR GROWTH HORIZONS 2 AND 3 AT ARM

Horizon 2

Over the past year the technology company Arm has transformed its largest business unit in order to sustain its high growth rate in the longer term. A market-leading semiconductor IP business that has seen remarkable growth in the past 15 years, particularly through its success in the smartphone market, Arm is adapting its historic success formula to newer markets such as Machine Learning, Automotive and the Internet of Things. In order to achieve this, the company's semiconductor IP business unit has pivoted from being product line focused to market focused. Core engineering capabilities have been centralised to drive scale, efficiency and rapid development of new capabilities across market segments. The central engineering team serves a set of lines of business that each focus on developing solutions for a given market segment. The new structure and operating model are reinforced by leadership, culture and reward mechanisms that drive customer centricity as well as collaboration across the enterprise.

Horizon 3

For Arm, continued innovation is an imperative. Because of Arm's expectation that innovation happens everywhere within the business, new ideas are typically able to flourish within the existing organisational construct. But where an innovation involves a fundamentally new market offering, business model or ecosystem, a different approach can be needed. In the past two years Arm has been building a second business unit focused on a new business model and capabilities. The new BU operates with a high level of independence so that it has the 'oxygen' to grow alongside the incumbent business and the agility to shape and respond to new markets. Importantly however, the BU also benefits from Arm's scale, drawing on a set of enterprise-wide enabling functions. This tension between autonomy and shared capability is actively managed through a combination of structure, governance and reward, as well as a culture that places strong emphasis on trust and empowerment on the one hand, and Arm-wide value on the other.

The ambidextrous organisation design may be the best option in any of the following circumstances.

- A new business operates on a different business model and would be starved by the organisation's normal processes for allocating resources and setting targets, milestones and standards.
- Locating a unit within an existing successful business may lead to the needs of the innovative unit being neglected in favour of feeding the core business.
- It's necessary to create a completely different culture or operating model to attract unique or scarce talent or, in the case of an acquisition, to retain key talent. For example, when Sony Europe acquired Hawk-Eye Innovations – which provides technology to analyse decisions in sports such as line-calls in tennis and cricket – a key challenge was how to sustain the company's innovative culture, and retain key staff, while successfully integrating the business into Sony. The solution it chose was to create a flexible structure that allowed it to run the business at arm's length, while allowing it to tap into the wider Sony infrastructure when this made sense. For example, using Sony Europe's infrastructure in various countries has helped Hawk-Eye ramp up quickly in new markets.

chapter 2. Innovations in Horizon 1 are extensions of existing capabilities and are therefore likely to emerge from or be closely connected to the existing organisation. The further out the new business sits on the three horizons, the more necessary it is likely to be to design a different organisation model. For an example, see the box above.

Potential organisational forms include the following.

1. Ambidextrous organisations

This involves creating a separate operating unit for emerging businesses. New ventures are organised as structurally independent

units, but integrated into the existing senior management hierarchy (O'Reilly & Tushman, 2004). The combination of tight connection to executive sponsors and organisation separation allows units to share important resources while allowing distinctive cultures, processes and operating models to develop, all the while protecting the business from being stifled by 'business as usual.' It's a way for large organisations to emulate smaller, more nimble businesses. It allows the organisation to develop a Horizon 2 or 3 business without being constrained by the operational controls that are needed to optimise a Horizon 1 business.

Ambidextrous units can also be unencumbered by the norms and challenges of traditional R&D units. They aim to be fast, agile, heavily networked and able to quickly scale up and down. An example is Walmart Labs, which is responsible for developing Walmart's global online businesses: based in California, it is 2,000 miles from the retailer's headquarters in Bentonville, Arkansas.

2. Networked organisations

As we discuss above, many organisations have had to develop or acquire new capabilities to manage the transition to a digital business model. But it's not always possible to recruit or train the specialist skills needed to deploy new technologies. Designing an organisation that runs on internal and external networks can be a solution, by affording access to flexible sources of talent and technology.

The network organisation builds task and knowledge networks with other companies to supplement its own capabilities. Sometimes the network might even involve competitors. Networks can also be temporary or project based, and can be set up without needing to go down the formal route of establishing a joint venture company. We see companies setting themselves up like this as a way of developing the integrated solutions platforms described in section 4.2.

However, organisations need to weigh the advantages of access to increased knowledge and expanded capabilities that networks afford against the risk that their competitive advantage may be eroded by sharing intellectual property and technical knowledge with other network participants.

Network-based organisations:

- can be configured quickly and flexibly to meet a specific objective and be rapidly disbanded or reconfigured once a project is complete
- can be agile and continuously innovative in a fast-changing environment, by changing the network at will.

3. Incubators, internal venture funds and other processes for funding innovation

For example, Avanade has set up an investment process for innovation that allows new ventures, acquisitions or new business opportunities to gain rapid access to investment funding. The board agrees an annual pot, from which the executive committee makes awards on a quarterly basis. The funding is available to any individual, business unit or function that wants to make an investment case. "There's a healthy attitude towards these investments that recognises that only a small proportion will lead to highly profitable businesses – it's about being bold and experimenting, and, where it doesn't work, failing fast; and taking the learning to the next experience," said Caroline Fanning.

CASE NOTES

Some examples from our interviews illustrate the different approaches organisations are taking to balancing their existing and new businesses.

Imperial Brands

Imperial Brands operates in a business – tobacco – that has historically been highly profitable with high barriers to entry. But with its core market declining, Imperial is looking to diversify. The company has invested in the e-vapour market, and has established a separate company – Fontem Ventures – to develop next-generation products. Imperial faces a number of choices in determining the most appropriate expansion strategy for growing a highly innovative business rapidly within a more stable parent company.

- Is the rapid expansion of the next-generation products business best served by building on the strengths and existing infrastructure of the core business, or could the existing organisation design and associated mindsets work to the detriment of the new business?
- How should it build capabilities in e-commerce, digital marketing, data security and privacy, which have not been required to the same extent in the core business? "We have very rapidly had to build a deep understanding of the digital space and scale up in that area," said Tim Walker-Jones, Group Reward & Capability Director.
- How should it integrate traditional and digital sales channels to create a seamless customer experience?
- Which capabilities in the core business should the new venture tap into, enabling rapid scaling of the business, and which should be kept in a stand-alone organisation?

Imperial is currently running the next-generation products business as a separate entity, but it is exploring whether an alternative organisation design might better facilitate rapid expansion by tapping into the core business's strengths in areas such as retail management.

Thomson Reuters

Consolidating the technology organisation, previously embedded in the business units, has allowed Thomson Reuters to launch a variety of initiatives aimed at fostering innovation, and bringing focus to building new capabilities. This would have been much harder to achieve at scale under the old model. The company now offers both the space and seed capital to develop new ideas and technology. "Having a central technology function enables us to drive capabilities and innovation at scale," said Mark Sandham.

- Specialist teams work on cross-company initiatives in areas including artificial intelligence and security, developing a consistent enterprise perspective and streamlining activities.
- Thomson Reuters has built a network of global innovation labs, working closely with academic institutions and customers to develop new technology capabilities that address customer needs.
- It built an incubator in Switzerland, partnering with local start-ups to get cutting edge projects off the ground.
- It is also building greater agility within the technology organisation, for example, setting up project teams as 'skunk works' to resolve specific customer issues.
- The company has set up a catalyst fund to encourage employees to submit ideas, driving internal innovation.

Hilton

Hilton has led the hospitality industry in innovating around technology and customer experience. A recent development has been to establish innovation hubs within each brand. It has done this by creating both dedicated office space and digital spaces to share and test ideas and encourage innovation.

05

CONCLUSIONS AND RECOMMENDATIONS

In this final chapter we set out some recommendations for developing and improving organisation design capability in organisations. We also reflect on HR's role in organisation design, and how HR can improve its capability and influence in this important area.

TOPICS COVERED

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“WHAT DISTINGUISHES ORGANISATIONS THAT ARE BETTER PREPARED FOR DIGITAL DISRUPTION? THEY ARE EXPERIMENTING WITH NEW IDEAS. THEY ARE THINKING DEEPLY ABOUT WHAT THE NEW BUSINESS MODELS MIGHT LOOK LIKE. THEY ARE EDUCATING THE C-SUITE ABOUT DISRUPTION. THEY ARE NOT SIMPLY KICKING THE CAN DOWN THE ROAD.”

Shamus Rae, Head of Innovation, Digital Labour and Cognitive Transformation, KPMG

5.1

CONCLUSIONS AND RECOMMENDATIONS

- The environment for organisations is characterised by complexity, rapid change, shifting business models and disruptive competition. In order to remain nimble and competitive in this context, large organisations need to be able to achieve two seemingly contradictory objectives: to reap the benefits of operating at a global scale while remaining responsive to customer needs and competitor actions on the ground. This is the key challenge for organisation design today.
- Organisation design is one of the fundamental building blocks for developing an effective, agile, high performing organisation, and is a critical skill that HR and organisation leaders need to develop.
- Organisation design has the potential to be a source of competitive advantage. In an era of rapidly shifting business strategies, having the capability to redesign operating models as the strategy evolves, can be a competitive differentiator. Most large organisations would benefit from investing in their capability in this area.
- It is a highly complex and technical subject, requiring a deep understanding of business strategy, process, relationships, structure and people. There is no ‘right or wrong’ answer in terms of what is the most appropriate design for any particular business.
- Organisations are dynamic systems, not machines, and need to be designed as such. This means paying as much attention to designing

networks, relationships and the interfaces between different parts of the organisation as to structures, hierarchies and decision rights.

Recommendations

- 1. Start with the business strategy.** The start point for organisation design has to be the business strategy. Does your organisation have a clear strategy, and is it well understood and communicated across the organisation? In what way does the organisation design activate and enable the strategy, and which elements do not currently deliver the desired results? How does the operating model need to evolve in order to support the strategy? Where will the organisation design need to change as a result?
- 2. Develop a process or model for organisation design.** Does your organisation have an agreed process, model, or framework for organisation design? Does your approach adopt a systems view, taking into account all the elements of the STAR model set out in chapter 2? Or does your approach to organisation focus predominantly on the boxes and lines on the organisation chart?
- 3. Focus on ‘rewarded’ complexity.** Where does complexity play out most strongly in your organisation design? Where there is complexity, is it rewarded (creating connection points across the organisation in order to execute a complex strategy), or unrewarded (adding unnecessary layers, duplication etc.)? See page 17.

- 4. Make sure design changes do not add unnecessary complexity.** When the organisation design changes, do you pay sufficient attention to taking away elements of the organisation design that are no longer required, for example, simplifying decision making by reducing the number of management forums? Or do you simply add more elements to the design, thereby increasing complexity?
- 5. Develop matrix-ready leaders.** Is your organisation investing sufficiently in developing leaders who are equipped and motivated to operate effectively within a matrix?
- 6. Take the customer’s perspective.** How do your customers experience your organisation design? Do they have to navigate multiple contact points or are the connections between your organisation and its external environment seamless? Starting by thinking about the customer perspective can be a good way of increasing organisation agility.
- 7. Consider whether you need to invest in building organisation design capability in your organisation.** How well equipped is your HR function to undertake organisation design work? Are key decision makers skilled in identifying the organisation design implications of the strategic choices they make?

“DIGITAL TECHNOLOGIES ARE ALLOWING ORGANISATIONS TO COMPLETELY REINVENT HOW THEY ORGANISE WORK. HOWEVER, WE ARE FINDING THAT ORGANISATIONS’ THOUGHT PROCESSES AND CREATIVITY ABOUT HOW TO ORGANISE WORK IN THE LIGHT OF THESE NEW TECHNOLOGIES IS LAGGING BEHIND.”

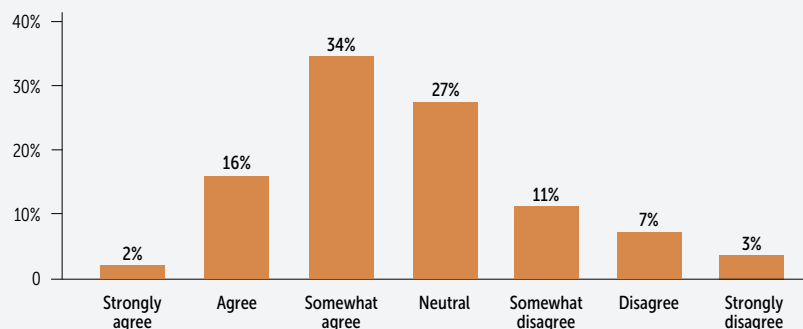
Robert Bolton, Partner, People & Change, KPMG

5.2 HR’S ROLE IN ORGANISATION DESIGN

What is HR’s role in organisation design, and what role *should* the function play? Our survey showed that the vast majority of organisations report a recent, current or imminent restructure. Strategies are constantly shifting, and so are the organisational models required to deliver those strategies. As the pace of change in organisations continues to accelerate, it will become even more important to develop the in-house capability required to continually adjust the design to keep pace with changes in the organisation’s business ecosystem. Calling on a team of external consultants to update the model every few years will not, on its own, be adequate for fast changing, global businesses.

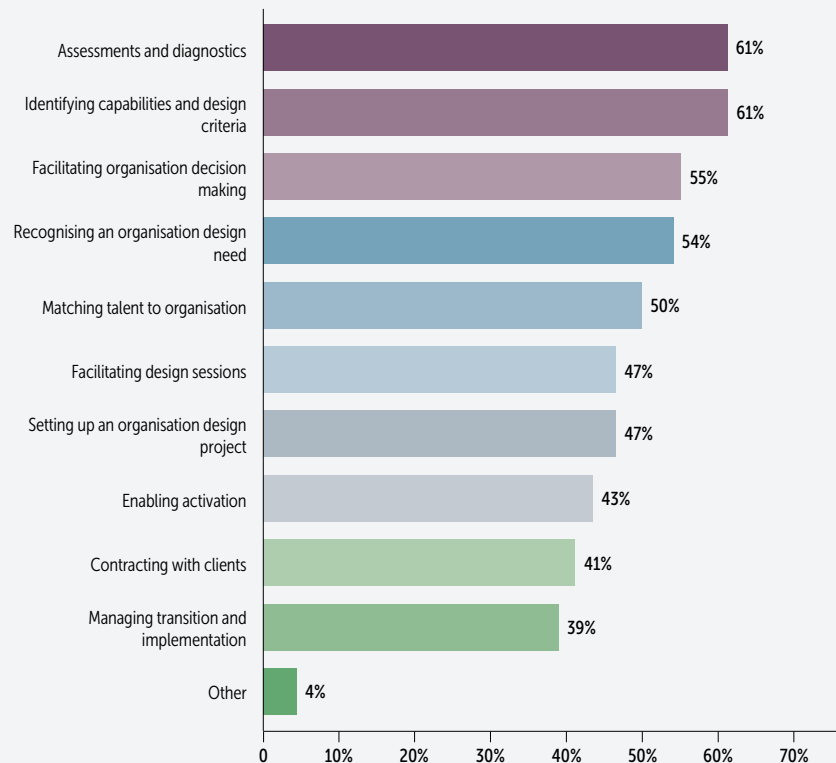
Our survey found that organisation design is an underdeveloped capability for the HR function. Just 39% of respondents to our survey felt they had strong organisation design capability within HR. Only half (52%) agreed or strongly agreed that business leaders believe their HR organisation is prepared to support them to solve issues around organisation design. The main areas where respondents felt organisation design capability needed to improve were getting to root causes and linking organisation design to strategy (both cited by 61%), and helping the organisation make informed choices about the appropriate design model to choose (cited by 55%). Respondents felt more comfortable with the more generic change management aspects of organisation design, such as handling implementation and contracting with clients. In our experience most organisations need to raise their game in building organisation design capability.

Figure 15: Our business leaders believe that our HR organisation is prepared to support them to solve these issues.



Source: CRF member survey, December 2017

Figure 16: We need to strengthen our organisation design capability for HR in the following areas.

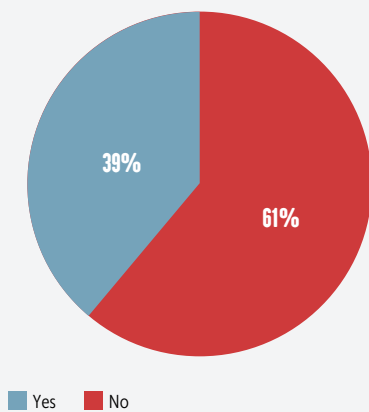


Source: CRF member survey, December 2017

“ORGANISATION DESIGN IS AN AREA WHERE HR SHOULD BE HAVING SIGNIFICANT IMPACT AND ADDING VALUE. IT’S A CORE DISCIPLINE FOR THE FUNCTION, AND WE NEED TO INVEST IN BUILDING CAPABILITY.”

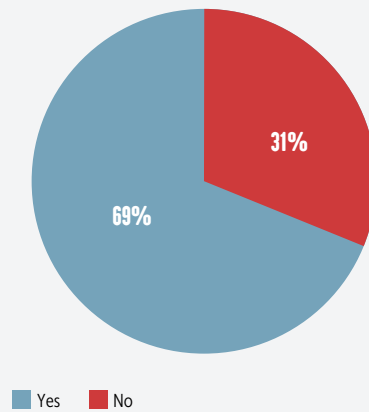
Rupert Morrison, CEO of OrgVue and Concentra Analytics

Figure 17: We have strong organisation design capability within HR.



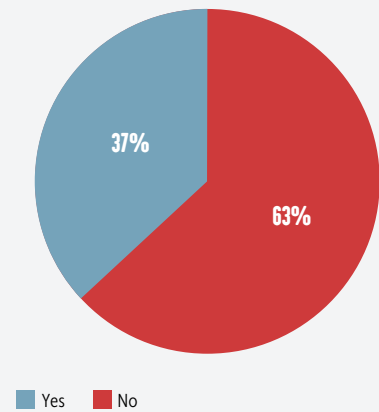
Source: CRF member survey, December 2017

Figure 18: Has your HR function gone through a significant restructure over the last three years?



Source: CRF member survey, December 2017

Figure 19: Is there a plan to significantly restructure HR over the next two years?



Source: CRF member survey, December 2017

The fact that the HR function is itself undergoing substantial change makes it that much harder for it to find the capacity and focus to support wider organisation design activities. Some 69% of our survey respondents said the HR function in their organisation had either gone through or was in the middle of a significant restructure, and 37% said there were plans to significantly restructure HR over the next two years. In many cases HR reorganisation is being tackled as part of a larger organisation realignment. But we also see many cases where restructuring of the HR function is driven by the implementation of a new global HR system. There is a danger that an internal focus on HR processes and systems can lead to HR taking its eye off the broader strategic priorities of the business and the actions required to support continuous organisational change and adaptation.

What skills and capabilities do HR leaders need in order to play a more instrumental role in organisation design?

Organisation design typically involves a combination of ‘hard’ strategic skills and ‘soft’ organisation and people development skills, including the following.

1. Business and strategic understanding.

Clarity around the organisation’s strategy and business model, and an ability to diagnose issues and requirements and design potential solutions.

2. Expertise in the ‘technical’ elements of organisation design,

including organisation design theories, models and frameworks. Our research and experience suggests that points 1 and 2 are the greatest skills gaps for HR.

3. Communications skills and stakeholder management.

Successfully engaging in organisation design work requires credibility and influence with the key decision-makers in the organisation, particularly the executive team, and a strong partnership with the internal strategy function and external advisers. The

ability to understand and navigate internal politics is essential.

4. Change management. This is typically the area where there’s greater expertise within the HR function and a higher expectation that HR can play a leading and substantial role.

5. Project and programme management. HR should be playing a key role in organisation design, but it requires a multi-disciplinary approach, bringing together business leaders, strategy and finance as well as HR.

HR is also well placed to help build design capability more broadly across the organisation. This includes the following aspects.

- Educating the organisation about the value of good organisation design, and building leaders’ awareness of the core concepts.
- Making sure that organisation design is covered in business strategy discussions and ongoing business planning discussions.

“A KEY PRIORITY FOR THE HR FUNCTION IS TO EDUCATE ITSELF ABOUT DEVELOPMENTS IN TECHNOLOGY AND THEIR IMPACT ON WORK AND THE WORKFORCE, AND TO BE ON THE FRONT FOOT IN TERMS OF WHAT THAT MEANS FOR ORGANISATION DESIGN.”

Steve Nathan, People Consulting, KPMG

- Introducing processes, frameworks, and tools, so that when leaders have to get involved in organisation design, they know what to do.
- Considering how to develop business leaders' capability in organisation design, for example, by including organisation design as a topic in leadership development programmes.
- Building expertise within HR to undertake organisation design work. "You probably need a centre of expertise with deep competence," said Rupert Morrison. "But for me, the biggest gap is that HR business partners really need to understand and get good at this work."
- Knowing when to bring in external expertise, and who.

06

APPENDIX

TOPICS COVERED

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6.1

REFERENCES AND READING LIST

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