Organization Design Capability: What Organizations Need to be Agile in Increasingly Turbulent Times

Webinar: January 10, 2017

Chris Worley and Susan Mohrman
Center for Effective Organizations
University of Southern California
Marshall School of Business
VUCA*

* Volatile, Uncertain, Complex, Ambiguous
# Traditional Sources of Uncertainty

<table>
<thead>
<tr>
<th>ELEMENTS</th>
<th>POTENTIAL QUESTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social:</strong></td>
<td>What are the latest musical, artistic, or cultural trends that could impact our business? How will millennial and LGBTQ demographics change work?</td>
</tr>
<tr>
<td><strong>Technology:</strong></td>
<td>Are there any new technologies on the horizon that could radically disrupt the status quo? How fast is the technology changing?</td>
</tr>
<tr>
<td><strong>Economic:</strong></td>
<td>What do the top three analysts in our industry think of us? What is the short and long term forecast for GDP and interest rates?</td>
</tr>
<tr>
<td><strong>Ecological:</strong></td>
<td>How sustainable are our activities?</td>
</tr>
<tr>
<td><strong>Politics/Regulators:</strong></td>
<td>How aggressive are regulators? How constraining are political forces? Will the political/regulatory climate radically change in the near future?</td>
</tr>
</tbody>
</table>
"Considerable uncertainty about the economic outlook remains."

Janet Yellen, January 5, 2017
Where might “considerable uncertainty” come from?

- A wave of “populism”
  - Arab spring/Brexit/Trump election
  - Increasing concentration of wealth
  - Upcoming French elections

- Terrorism and Geo-political uncertainty
  - Syrian civil war/Refugee issues for the EU and North America
  - Frequent terrorist attacks in EU/ISIL
  - Korean nuclear testing
  - Russian/Chinese computer hacking/cyberattacks
  - Debate over causes and solutions to global warming
  - Trade wars and rebalancing of international powers
What Makes Something Uncertain?

- Information availability, accuracy, and clarity.
- Cause-effect relationships.
- Outcome preferences (stakeholders).
- Time span of definitive feedback.
- Inability to assign probabilities to events.

Source: Miles, 1980
How uncertainty affects design…

Environments

Uncertainty

Structures and Processes

Uncertainty

Technology

Adapted from Thompson, 1967
Why is Organization Design Important?

- Resources can be dynamically or rigidly aligned (or misaligned) with strategy, priorities, and uncertainties.
- Coordination can be flexible and efficient or inflexible and inefficient—resource use is optimized or resources are wasted.
- Performance capabilities—quality, speed, innovation, growth—can be enabled or disabled.
- Work can be made hard or easy to do, capable of adapting quickly or frozen in time—people can be frustrated or feel well utilized.
- Customer interfaces can be effective or ineffective—high value is delivered or not.
- Human capital can be developed, motivated, and retained or stagnates, becomes cynical, disengages, and “departs”.
- Adaptability and change can be built-in or designed-out.
Design over time...

Episodic Change
- Change capability rented when needed
- Focus on efficiency over innovation
- Stability = Effectiveness
- Change = Enemy
- Performance reflects change pattern
- Decision-making centralized
- Resources allocated through budgets

Continuous Change
- Change capability embedded in organization
- Focus on ambidexterity
- Change = Effectiveness
- Stability = Enemy
- Performance reflects change pattern
- Decision-making shared/decentralized
- Resources allocated through accountabilities
A Variety of Models have been Offered to Manage Change in the ‘Old’ World …

The Change Acceleration Process Model

Leading Change
- Creating a Shared Need
- Shaping a Vision
- Mobilizing Commitment
- Improved State

Transition State
- Making Change Last
- Monitoring Progress

Changing Systems and Strategies

Lewin’s Unfreeze-Change-Freeze Model

- Unfreeze
  - Ensures that employees are ready for change

- Change
  - Execute the intended change

- Refreeze
  - Ensures that the change becomes permanent

Others ????

APPRECIATIVE INQUIRY

Dream
- What might be?

Design
- What should be the ideal?

Desire
- Empower, learn, adjust and do

Destiny
- Systems develop in the direction of questions we ask

Awareness
- Understand need for change
- Understand nature of the change

Desire
- Support the change
- Participate and engage

Knowledge
- How to change
- Implement new skills and behaviors

Ability
- ‘Implement the change’
- ‘Demonstrate performance’

Reinforcement
- ‘Sustain the change’
- ‘Build a culture and competence around change’
Contemporary Approaches to Managing Fundamental Change

Great stress on executive leadership role

Risk analysis and mitigation

Carefully planned one-way communication

Play-books, tools, scripts etc.

Developing a transition structure with workstreams, initiatives, Gant charts, and plans
These are all important elements of complex transitions under uncertainty, but they all stem from the center-out or the top-down.

True change is to the fabric of the organization. Accelerating change requires active leadership, learning, and engagement across and within the organization.
In the new world, all of them are flawed

- They implicitly or explicitly assume change will be over
- They argue for a period of ‘getting ready’ or ‘building support’ for an unnatural act
- They argue that the status quo needs to be ‘blown up’
  - They collude with managers (power holders)
  - They advocate for outdated approaches
  - They publish and contribute to research on the old way,
  - They hold old models as ‘best practice’
Transitions Require Design at All Systems Levels

Corporate/ System Wide

Business Unit

Inter-Unit

Team, Work Unit, or Work Process

Inter-Organizational
Accelerated Implementation Occurs When Learning Occurs at all Levels
A Design Oriented and Dynamic View of Organization Change
The Agility Pyramid and Agility’s Dirty Little Secret

- **Adaptation:** Change Better than Anyone
- **Differentiation:** Be Better than the Rest
- **Survival:** Be Like the Best
The Agility Pyramid and Agility’s Dirty Little Secret

- **Routines**
  - **Adaptation:** Change Better than Anyone

- **Capabilities**
  - **Differentiation:** Be Better than the Rest

- **Good Management**
  - **Survival:** Be Like the Best
Agility is an Organization Capability

It represents the capacity to make timely, effective, and sustainable organization changes:

• There is an identifiable set of skills and knowledge related to processes of change and organization design.

• There is an identifiable and repeatable set of routines – strategizing, perceiving, testing, and implementing.

• It is something that has to be learned and experienced. You cannot buy it.
Strategic Change Generally Entails the Development of New Capabilities

Examples:

• Building global product organizations and changing the role of the local organization to be market facing requires the ability to articulate between the front and back end of the business.

• Moving from a product-centric to a customer-centric orientation requires changes in almost every assumption made about the business and all aspects of the organization’s functioning.
Adapted from: Galbraith (1994)

Worley and Mohrman (2013)
What is Organization Design Capability?

How do Organizations Develop It?
Designing Organizations is the continual process of purposefully configuring the elements of the organization to foster the achievement of valued business, customer, employee, and social/ecological outcomes.
Star Model

Adapted from: Galbraith (1994)
Domains of Focus: Capability Development

- Talent and Knowledge
- Organization Design
- Implementing and Learning
Domains of Focus: Capability Development

Create a critical mass of design and change-related skills and knowledge

Talent and Knowledge

Organization Design

Engage in and learn from change

Implementing and Learning

Create change architectures leveraging common tool sets, models, and language and integrating OD and strategy processes
"Routines" of Agile Capability Development: Organization Design

<table>
<thead>
<tr>
<th>Established organization design framework and process.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong diagnostic capabilities and processes.</td>
</tr>
<tr>
<td>Line leader accountability for regular review of alignment of organization design with evolving strategy.</td>
</tr>
<tr>
<td>Common language and shared models of organization that are varied enough to fit diverse and evolving business models.</td>
</tr>
<tr>
<td>Models and processes for creating lateral structures and network connections.</td>
</tr>
<tr>
<td>Design and Implementation project management and governance frameworks and processes.</td>
</tr>
<tr>
<td>Mechanisms for extended input to designs and changes.</td>
</tr>
<tr>
<td>Strong cross-functional implementation processes.</td>
</tr>
</tbody>
</table>
"Routines” of Agile Capability Development: Implementing and Learning

- Change management frameworks and models that are known and accepted by line managers—simple and flexible.
- Forums and mechanisms to share and align and govern many simultaneous changes.
- Processes and habits of learning from experience (assessment, lessons learned, practice-based learning, sharing across communities of practice, sharing across organizational boundaries).
- Mechanisms to create shared meaning (common language, meaning creation processes, communication, touchstone frameworks such as values, strategies, principles, identity, business models).
- Individual and team level development activities.
Catalyzing a System of Ongoing Design, Implementation & Assessment Processes

- **Strategy - Business Case, Criteria**: Ongoing communication—develop common understanding

- **Macro Design Changes Staged Implementation**: Structural reconfiguration, staffing decisions, staged implementation

- **Ongoing Micro-Design**: Details of design features, local tailoring, infrastructure

- **Learning**: Socialization, Two-way conversations, local tailoring
  - Team development, Inter-team development, Learning by doing

- **Training & Development**: New roles, competencies, processes

- **Assessment, Feedback**

- **Iteration and Supplemental Design**

- **Development: Learning by Testing**
  - Implementation Assessment

- **Implementation & Evaluation Assessment, Iterating**

- **Redesign**

© 2017 University of Southern California
### Transition Team Composition
- Project Management
- Organizational Effectiveness
- Business Representation
- HR
- Communication

### Transition Team:
- Aligns initiatives with strategy
- Integrates the initiatives
- Assures business input to initiatives
“Routines” of Agile Capability Development: Talent & Knowledge

Processes to quickly assess:
- Current available talent pool
- What new knowledge, talent, and social capital are required for this capability?

Planning and staffing processes and principles—to quickly assemble new knowledge and talent.

Development and career progression principles, frameworks, and processes—quick and flexible movement of right talent to right assignments.

Flexible processes for quickly identifying issues and opportunities and combining knowledge to focus on them.
Organization Design Capability

- Diagnosing
- Designing
- Processes
- Relational Skills

Legitimacy (Success, Positioning)

Project Management

Implementation

Assessment

Correction

Experiences

Principles

Models

Frameworks and Tailoring

Contingencies

Examples
# A New Set of OE Competencies

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Engage</th>
<th>Learn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actively seeks out information about current and future environments, the business, and the organization’s people</td>
<td>Reflects on and adds intelligence to understandings about environmental changes, business strategies, and shifts in talent</td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>Works to understand the strengths and weaknesses of the current organization, develops an awareness of alternative designs being used in the organization</td>
<td>Incorporates varied experiences and knowledge into new understandings about organization design options and their relationship to effectiveness</td>
</tr>
<tr>
<td>Tailor</td>
<td>Co-creates unique strategies, solutions, and interventions given conditions and resources</td>
<td>Develops and shares knowledge for adapting change and design processes, offers suggestions for how best to create a unique way to address key issues</td>
</tr>
<tr>
<td>Monitor</td>
<td>Quickly measures and monitors the impact, result, or effect of design changes</td>
<td>Builds abilities to see patterns in change and develops more complex and nuanced assessments of intervention effectiveness</td>
</tr>
</tbody>
</table>

**Reference:** Chapter published in *Consultation for Organization Change Revisited* (as part of the Research in Management Consulting series published by Information Age Publishing, Charlotte, North Carolina (2015)).
Developing Organization Design and Change Capabilities: Learnings from Research

Organization Design and Continuous Change are not currently strong capabilities in most organizations, HR functions, and even of many OE/OD professionals. It requires...

- Embedded models, frameworks, and perspectives (routines) that support and reinforce continuous change and redesign in the organization.
- Deep knowledge about the content and process of organization design and change.
- Development through formal training and through practice and experience.
- Nurturing and updating through communities of practice.
- Line managers in the organization to understand design as an expertise that enables the strategy, changes, and operating performance needed to deliver value in a changing market.
- Direct connections of organization design (OE) experts to business leaders.
- A strong internal consultation capability and connection to the business.
- Collaboration/integration and teaming with other change oriented capabilities such as process expertise, and talent development.
Organization Design Expertise:

Many People Who are Aware of What Design is and Why It is Important

- Many people who are knowledgeable about organization design – HR, Line Managers, Strategy, Functional Leaders—Who understand their roles in ensuring the organization supports the strategy, and are good clients and partners with internal design experts.

Some professionals with Deep Knowledge of the Content and Process of Organization Design and Implementation, who KNOW THE BUSINESS:

- Lead and manage large and small design projects.
- Build and lead design teams.
- Manage/partner with external consultants who are brought in as capability extenders.
- Integrate and Coordinate many simultaneous design projects
- Stay closely linked to line leaders and strategy in order to keep the many simultaneous design projects aligned with the company’s strategic direction
- Partner with/lead a team of Change Management, Communication, Development, project managers, and process Improvement professionals to ensure accelerated and successful
Where should the organization design expertise reside?

Option 1:
Corporate Center of Excellence (COE) attached to HR, Strategy, or COO. COE responsible for development of people and capability, flexible deployment of expertise, and integration of dispersed initiatives.

- Some consultants can be deployed to different businesses, operating units and regions as primary account managers and/or matrixed leadership team members
- Some deep experts may be corporate assets, assigned to projects on the basis of strategic importance to the company
- Consultants may be deployed to lead/partner with business sponsors of major corporate initiatives, reporting operationally to the initiative sponsor.

Option 2:
Decentralized: Consultants report to Operating Units attached to Business Leader, Strategy or Business Leader as Strategic Projects Leader. COE responsible for advancing the practice, consulting to the Center, and for loose coordination/learning across dispersed initiatives.

- OE Consultants are Members of Corporate wide Community of Practice that is led from Small Corporate COE Staff
Barriers to Effective Utilization of Organization Design Expertise

- Insufficient depth of knowledge and experience—fail to gain confidence of business leaders.
- Design expertise is buried in the HR organization—reporting to leaders who don’t know this area and devalue it. See them as “not yet ready to be business partners”.
- Design experts have insufficient access to clients. (Business Partners as gatekeepers).
- Business partners are expected to be the design consultants and have insufficient knowledge, experience and time to do the job well.
- Design experts get captured in business units that underutilize them.
- Line leaders go immediately to consulting firms for help.
- Design experts are highly marketable—they leave if they aren’t well used—a revolving door that leaves little confidence among business leaders that the organization has the design capacity that it needs.
Organization Design and Change Management

**Strategic Organization Design Workshop: The Framework**
- Overview of foundational organization design frameworks and approaches to address current design challenges.
- Build on examples from our research and consulting to address the core building blocks of design and to demonstrate how to put them together to support strategy.

**Advanced Topics in Organization Design: The Practicum**
- Deeper exploration of special topics such as the global organization
- Participant projects; and peer consulting.
- Practicum-based course in which participants receive coaching while working through a real design challenge

**Beyond Change Management: Embedding the Capability**
- Builds on the frameworks and competencies for ongoing change and capabilities for agility.
- Proactive learning, redesign, and rapid implementation must become core organizational capabilities that are supported by the organization’s design and operation.
Upcoming Organization Design/Change Workshops

**Workshop: Strategic Organizational Design**  
London (hosted by Unilever)  
March 28-31, 2017

**Workshop: Advanced Topics in Organizational Design**  
Los Angeles  
September 19-22, 2017

**Workshop: Strategic Organizational Design**  
Los Angeles  
November 14-17, 2017

**Workshop: Beyond Change Management**  
San Francisco (hosted by McKesson)  
March 6-8, 2018  
(details forthcoming)

Location: Four Acres, Surrey  
(Unilever’s International Management Training Center)

With Sue Mohrman and Chris Worley  
Guest Speaker: Becky Spears (Oracle)

Non-Sponsor Registration:  
$5,250.00 per person  
$4,460.00 per person for three or more from the same company

Sponsor Registration:  
$4,000.00 per person  
$3,400.00 per person for three or more from the same company

This workshop provides participants with core principles, models, tools and examples of organization design for those who wish to develop a deeper understanding of this topic and to learn useable organization design frameworks.

Registration Deadline: March 01, 2017

http://ceo.usc.edu