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DESIGNING A RECONFIGURATION ORGANIZATION

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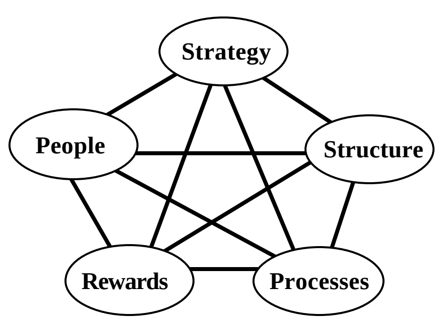
DESIGNING A RECONFIGURABLE ORGANIZATION

Every company needs an organization which changes as quickly as its business changes. If not, the company is falling behind. In order to keep from falling behind, many companies are devoting enormous amounts of time and energy in "Change Management". This change task can be made less difficult and less time consuming if some of the change effort focused on designing organizations from the outset to be more easily changeable. If change is constant, why not design our organizations to be constantly and quickly changeable? It is this easily changeable or reconfigurable organization that I would like to describe in this article.

COMPETING WITH NO SUSTAINABLE ADVANTAGE

One of the needs for a reconfigurable organization arises from the decline in the sustainability of competitive advantages. Organizations have always been created in order to execute business strategies. Different strategies have lead to different organizations. But when advantages do not last long, neither do the organizations which execute them. In the past, management crafted a winning business formula and erected barriers to entry to sustain their advantage. Then management created an organization structure around functions, products/services, markets or geographies, which was designed to deliver the success formula. To complete the integrity of the organization, planning and budgeting processes, information systems, new product development processes, compensation systems, selection and promotion criteria, career paths, performance appraisals and training and development sequences would all be designed and aligned with each other and with the organization's strategy and structure. Such an aligned organization would execute the strategy with as little friction as possible. This thinking resulted in models like the one shown in Figure 1 (Galbraith, 1995).

Figure 1 — The Star Model



Today, in many industries, that model of organization design is flawed. The reason is the success formulas do not last very long (D'Aveni, 1994). The advantages around which the organization is designed are quickly copied or even surpassed by high speed competitors. Therefore, to focus and align the organization is to become vulnerable. Some people have concluded that alignment is no longer a useful organizational design criterion. While I agree that alignment around a focused strategy can impede change to a new strategy, it is the continued focus on a non-sustainable advantage that is the flaw, rather than the alignment. The point can be made by focusing on the alternative which is misalignment. Misalignment of strategy, structure and processes will cause activities to conflict, units to work at cross-purposes and a loss of organizational energy over many frictions. Instead, we need a new, aligned organizational design. We need to have organizational structures and processes which are easily reconfigured and realigned with a constantly changing strategy.

Thus, the challenge is to design organizations to execute strategies when there are no sustainable competitive advantages. When product advantages are not sustainable over time, the winners will be those who create a series of short-term temporary advantages. Under this scenario, the leaders will be future-oriented and will continuously create capabilities that lead to customer value. They will move quickly to combine these capabilities to match and surpass current advantages (including their own.) They will outmaneuver competitors by stringing together a series of moves and countermoves, as in a game of chess. Those companies with the capabilities for flexible responses and a variety of moves over the course of time will most likely win. The reconfigurable organization is the means to execute this continuous strategy shifting.

AN EXAMPLE OF THE RECONFIGUREABLE ORGANIZATION

The reconfigurable organization results from the skilled use of three capabilities. First, the organization is reconfigured by forming teams and networks across organizational departments. These "lateral structures" require an extensive internal networking capability (see Galbraith 1994.) Second, the organization uses internal prices, markets and market-like devices to coordinate the complexity of multiple teams. And finally, the organization forms partnerships to secure capabilities that it does not have. These partnerships require an external networking capability. The three capabilities are best illustrated with an example, although the emphasis will be on the internal networking.

The example company is a manufacturer of consumer baking products, like cookies and crackers. The firm had competencies in brand management and distribution. It had a network of bakeries across North America and a logistics system which could deliver directly from the bakery to the retail store. Baking has always been a just-in-time business. This company's brands and its distribution systems had been its advantages and its barriers to entry.

In the 1980s these advantages came under attack. Retailers and their private label suppliers could easily match the company's product quality at significantly lower prices. Also, the baker's products were high fat and high calorie. Hence, the company's products were being avoided by both the budget conscious and the health conscious.

The company's resurgence began with their discovery of a low fat ingredient which maintained the product's taste. After approval by the US Food and Drug Administration, the company began reformulating its most popular brands and focused promotions on the health segment. The new products literally flew off of the shelves. The reformulation revived the brands and created an advantage that the private labels could not match.

In order to capitalize further on the product popularity, the company expanded into all possible distribution channels. However, different channels require different packaging. The company then created partnerships with independent manufacturers (called co-packers) to provide multiple packages. They now provide their products in enormous boxes for the discount "club stores" and single serve portions for vending machines and convenience stores.

Next, the company took the new ingredient into new categories like breakfast products and snacks where it could create an advantage. They often created new products for these new categories with partners because the products (like granola bars) were not baked. The expansion provided a new business in different aisles of the grocery store. The new products could also be kept fresh by using the company's existing delivery system. Other manufacturers of breakfast foods did not have this capability nor the low fat ingredient.

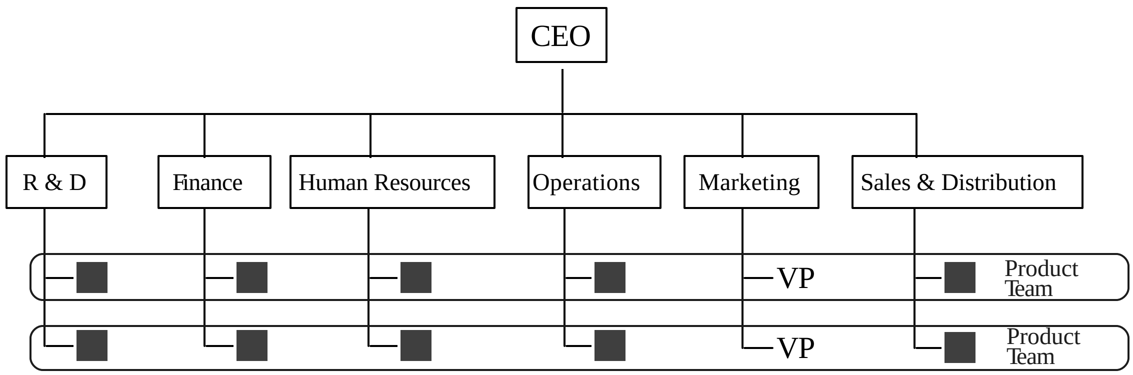
The company also created partnerships (which it called category management) with two of its larger customers. These customers turned the management of the entire cookie and cracker aisle over to the baking company. The baking company's skills in brand management, sophisticated analysis of bar code data, knowledge of the cookie and cracker category allowed both customer and manufacturer to increase their respective profitabilities. By coordinating the product and cash flow from bakery to store, they could minimize working capital. The grocery customers are now interested in packaging that is unique to them. Here again, the baking company, with its packaging flexibility through its external network of partnerships, is able to meet its customer's needs.

In summary, our example company has created an advantage through its discovery of a low fat ingredient which maintains the product taste. Using its existing capabilities in logistics and brand management, it successfully targeted and dominated the health segment. It created a multi-channel, multi-package capability to enlarge the population that they can reach. It used the ingredient and its logistics to enter a new category (breakfast.) The ingredient advantage will buy time for the company while it builds knowledge in the new category. And finally, its enhanced reputation, brand management, logistics and flexible packaging capabilities made it an attractive partner for large retailers. The company has created a series of advantages by combining and recombining new capabilities and old ones to address new products, new segments, new channels and new customer relationships. It is a good example of the continuous creation of advantages. The baking company creates and implements an initiative which gives it advantage. Then it quickly moves on to the next advantage. What is next? Perhaps some new segments like products for Asian or Hispanic tastes. But also coming is another new ingredient that is both low fat and low calorie (rather than just low fat). The company will then repeat the sequence of advantages. If nothing new is next, then it is only a matter of time before the store brands match its products and beat its prices.

CREATING RECONFIGURABILITY

This strategy of creating a series of short-term advantages can only be effective if the company has an organization that can execute it. Prior to the discovery of the low fat ingredient, the company was organized functionally around Research and Development, Operations, Marketing, Sales and Distribution, Finance, and Human Resources. Like most packages consumer goods companies, it used cross-functional product line teams. These teams, shown in Figure 2, are chaired by the product Vice Presidents from Marketing. It had reasonably good cross-functional relationships. Quite a few of the top management group had cross-functional experience. In addition, for about 5 years, the company was encouraging project management experience. Almost all managers had attended the project management course. Almost all had worked on cross-functional project teams. The company built on this base to implement the continuous strategy shifts.

Figure 2 — Product Team Organization



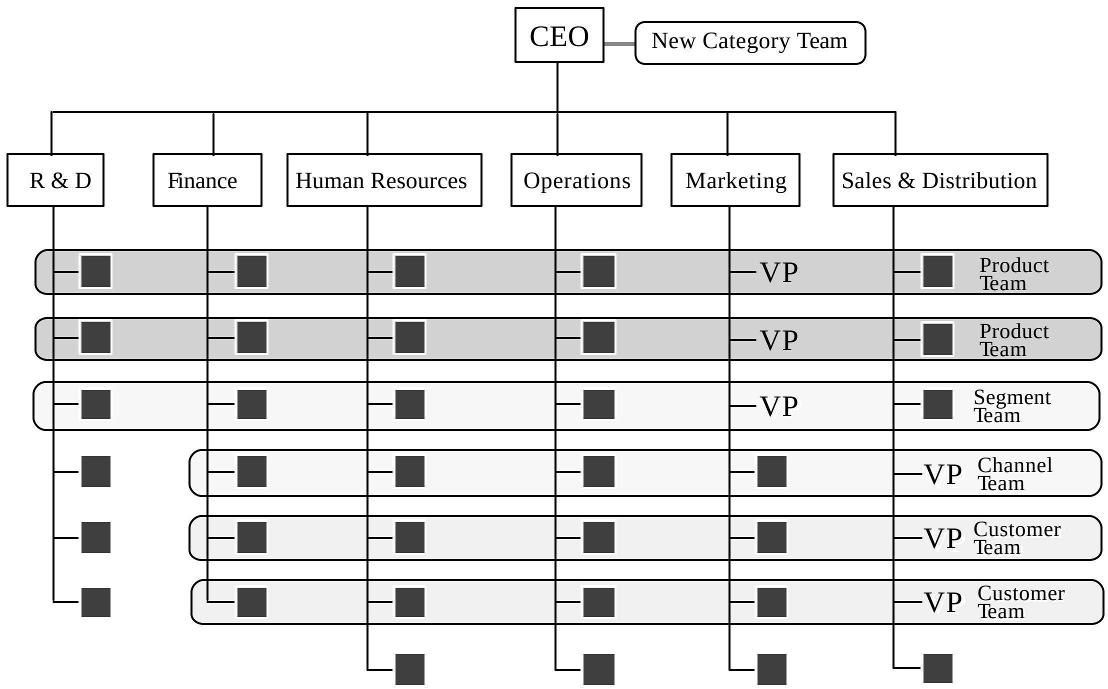
The first organizational change was the creation of a third team that was focused on the health segment and was to reformulate and relaunch the company's products. This team was chaired by a full-time marketing Vice President. Like the two existing teams, each function contributed a representative who had the time (at least 50%), the authority to represent the function and the information about the function to be used in problem solving. The main difference was that the segment team was both cross-function and cross-product.

The new category was addressed by another cross-functional unit chaired by a Vice President from Marketing. But this team was full-time and dedicated to the effort of breaking into a new category. Several dedicated salespeople worked for the unit and created the new sales approach for the new category. This team reported directly to the Chief Executive to get the attention and focus that a new business requires.

A similar team was created for the new channels. A Vice President from marketing chaired the team but reported to the Senior Vice President for Sales and Distribution. All functions, except Research and Development, contributed a full-time, dedicated manager. There was no Research and Development representation because there were no new products involved. The channel team bought products from the factories and managed the relationships with co-packers who packaged the products.

Following the above changes, two more dedicated cross-functional units were formed for the two customer partnerships. These units also consisted of full-time, dedicated people from all functions, again except Research and Development. The units were chaired by the Account Manager for the customer and reported to the Senior Vice President of Sales and Distribution. Both the channel and customer teams were cross-function and cross-product units. This new organization is shown in Figure 3.

Figure 3 — Multi-Dimensional Organization



In the meantime, the Finance function was redesigning the accounting system. They implemented an Activity-Based Cost system. At the same time, they installed enterprise software to automate the new system. The result is that profit and loss measurement can be applied to all of the strategic initiatives. The products, segments, categories, channels and customers are all profit and loss measurable. The Human Resources department is redesigning the reward systems to incorporate team-based rewards. Each of these teams is in fact a miniature business unit.

In this way, the example company was configured and reconfigured itself from a functional structure with brand managers to a multi-structure based on functions, products, segments, categories, channels and customers. It is a multiple profit and loss structure that can be flexibly changed to any dimension which will support the next strategic advantage. While there is probably a limit to the number of miniature business units that can be in place at any one time, the company is creating the capability to organize <u>any way</u> it wants to organize. So instead of choosing to organize by function <u>or</u> product <u>or</u> market segment to implement a sustainable brand advantage, the company is organized by function <u>and</u> product <u>and</u> segment <u>and</u> channel <u>and</u> customer to implement a series of constantly changing, short-term advantages. In order to implement this reconfigurable organization, a company needs an aligned set of policies which permit it to form and reform internal and external networks of capabilities. Let me describe in more detail the elements of the Star Model, shown in Figure 1, which support the capability to reconfigure.

STRUCTURE

The structure of the reconfigurable organization consists of a stable part and a changing part. The changing part was described above as the company configured miniature businesses around products, segments, channels and customers. This changing part is the reconfigurable part which changes with changes in competitive strategy.

The functional structure is the stable part. This stable structure is both home and host to the company's employees. It is home to the specialists and experts in food science, distribution, manufacturing technologies, analysis of bar code data, and other competencies that the company has built. These people tend not to rotate across functions but do participate in the cross-functional teams. The functional structure is also the host to managers who move across functions or rotational assignments.

PROCESSES

The first area, information and goal setting processes, is often overlooked and underestimated in its power to define an organization's capabilities. The reconfigurable organization needs accounting systems, data structures and planning processes which allow it to operate as a collection of miniature business units. All of the data is available to all of the parties. As mentioned above, the costs and revenues must be assignable to products, segments, channels and so on so that profitability can be identified. Policies for transfer prices need to accurately reflect market prices to coordinate resource allocations between miniature business units themselves and with external partners. The complexity of coordinating all of these miniature business units is aided by the use of prices and markets. Flexible, reconfigurable organizations must be aligned with flexible reconfigurable accounting systems.

The management team must be skilled at the timely resolution of conflicts. Constant change brings constant conflict. For example, the products from the health segment stole sales from the traditional cookie and cracker product lines. What is best for the total company? There are frequent priority decisions when resources are shared. Which channel and customers get supplied when the new products are in short supply? At the bakery, there was the "Monday morning meeting" where these issues were thrashed out. Attendance varied from 10 to 18 people. The informations systems and problem solving management teams are necessary for the timely decisions in a reconfigurable organization.

A second set of processes are the common processes for new product development, order fulfillment and strategic planning. These are another source of stability. In the reconfigurable organization, the structure changes but the processes are stable and common across the mini-business units.

And next, there needs to be a strong management team. There is really only one business and one Profit and Loss statement that counts. That is the company

P&L. However, the strategy shifting and reconfiguring of the organization requires that it be decomposed into many miniature business units. In this way, each unit can pursue different initiatives, but they can impact both positively and negatively on the company P&L. The integration of all of these units is the task of the management team which must set priorities, allocate resources and resolve the inevitable conflicts.

PEOPLE

Equally important is the area of Human Resources. The Human Resources policies must be aligned to create the behaviors and mindsets that support reconfigurability. The conflicts within a unit and between units over priorities and transfer prices can sap the energy from a mini-business unit company. The participants need to be cross-functionally skilled, have cross-unit interpersonal networks, identify with the company as a whole, and be part of a reconfigurable culture. The various human resource policies are central to creating these skills, networks and culture (see Lawler, 1994.)

These human resource policies start with hiring practices which recruit and attract people who fit the organization, not just the job. The jobs will change and new skills will be learned. But the person's personality and the company's values and culture are much less likely to change. Hence, a person-organization fit is key to the reconfigurable organization. Personality tests, work simulations and very extensive interviews are characteristic of hiring the person to fit the organization. For the reconfigurable organization, people who like to work in teams, can problem solve, handle conflicts, and have the desire and potential to learn new skills are some of the personality attributes that are sought. For example, the company described above uses a cross-functional interviewing process. Potential Brand Managers are interviewed by current Brand Managers and also by Research Scientists, Manufacturing representatives and Sales Managers with cross-functional experience. The company does not want a "hot shot" marketer whose sole interest is the fast track through Brand Management. The person must also be acceptable to Research and Development and Manufacturing. The intensive interview process selects people who will be effective in cross-functional work. This process also sends a message that "cross-function is the way we work" and helps to build the reconfigurable culture.

Assignments and careers are also cross-functional for many mangers. For example, R&D people often follow a new product they are working on into Manufacturing and then into Sales and Distribution. At each step they learn new functional skills. They also learn the new product development process as they move along it. But just as important are the relationships that they build and that add to their interpersonal network. The assignment process develops the individual and simultaneously develops the organization's network. The process builds the social capital on which reconfigurability is based.

Training is continuous and targeted at cross-unit participants. Project Management training, for example, is given to cross-functional teams prior to beginning new projects. Other subjects are delivered to cross-unit groups consisting of people working at key interfaces. The purpose is always to simultaneously build "Know How" and "Know Who." The reconfigurable organization sees every training event and especially social events as opportunities to build "Know Who." The events are investments in building the company's social capital.

REWARDS

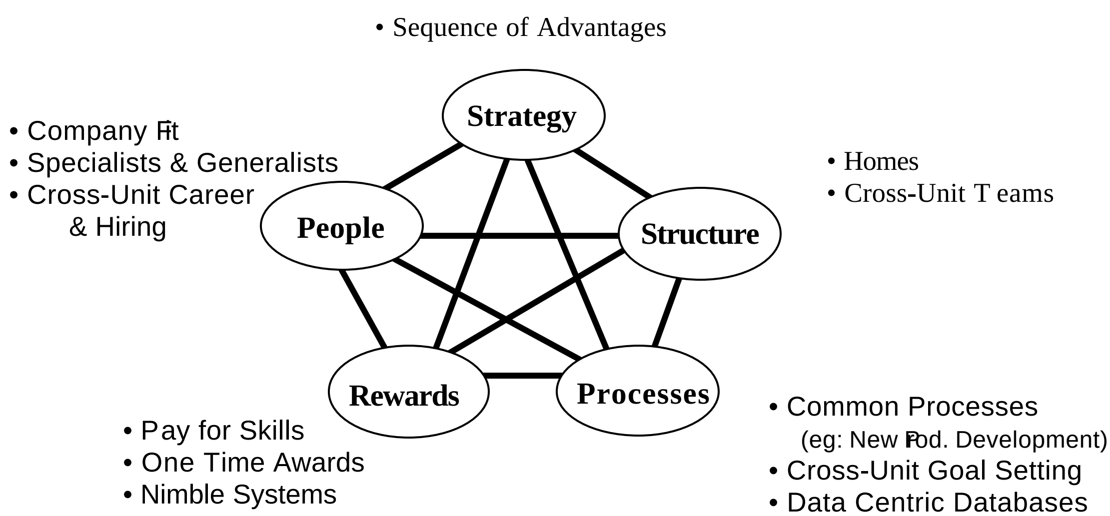
Finally, the reward system needs to be equally flexible and reconfigurable (see Ledford, 1995.) Yet nothing turns a manager into a conservative faster than a recommendation to change the compensation system. Because of this conservatism, compensation systems are the greatest barriers to change and flexibility. At a time when pay plans need to be approximate, flexible, simple and valid, they are instead precise, complex, quantitative, non-aligned, out of date and rigid. It takes years to study a pay system, re-evaluate the jobs, pilot the new plan and introduce it unit by unit. Far more speed and flexibility are needed.

The new, nimble reward systems have far fewer grades or bands (3) than the 30 pay grades of old. Salaries are based on a person's skills not the job. Today we pay the person, not the job. Jobs change too quickly. So do the people but the more they learn the more they earn. Often, skill-based pay is given as a one-time bonus for learning because skills also come and go. Fewer annuity-like additions are used and more one-time bonuses substituted.

The appraisal process is also moving away from a boss' appraisal to a team-based appraisal or 360-degree feedback model. There is less ranking of all 220 engineers along a single dimension and less complexity in the performance rating scales. Some organizations have an appraisal day which is automated. The whole process is done and completed in less than a day. It is done easily and quickly and can be repeated more often for quickly changing environments. So pay systems are becoming more flexible in using more bonus and less annuity, simpler scales and grades, pay for skills rather than jobs, and encouraging faster changes and more experimentation.

Collectively these People and Reward practices build the cross-unit skills, cross unit interpersonal networks and ultimately a reconfigurable culture. Such practices build the skills and mindsets to link functions, both inside and outside the company, into a mini-business unit. In this manner an organization is better positioned to capitalize on an opportunity and build a new capability. These capabilities can be combined and recombined in interesting ways to create the next advantage. But the lasting capability, and possibly a more sustainable source of advantage, is the capability of an organization to reconfigure itself. An aligned Star Model with the various practices that constitute the reconfigurable organization is shown in Figure 4 below.

Figure 4 — Reconfigurable but Aligned



THE COST OF RECONFIGURABILITY

Reconfigurability, unlike quality, is not free. It takes time and resources to build the information systems and human resource practices. A significant investment in recruiting and training is required. Then there is the investment of management in coordinating work within and between miniature business units. It is a communications intense form of organization.

There is also the potential for problems. Companies may not always be able to find people who can manage conflict and who desire growth and development. Everyone is looking for team players. In addition, there is the potential for unresolved conflict. Transfer price issues can consume enormous amounts of time. As in matrix-type organizations, discussions in a reconfigurable organization can degenerate into large amounts of internal negotiations leaving less time for customers. If not all of the policies are aligned, these internal frictions can absorb the company's energy. However, these costs and risks must be weighed against not being able to adjust to a reconfigurable competitor.

CONCLUSION

The reconfigurable organization is the companion to the continually shifting strategy. When competitive advantages do not last very long, neither do organizations. Instead, competitive advantage results from a string of short-term advantages delivered through a reconfigurable organization.

The reconfigurable organization consists of a stable functional structure around which projects and miniature business units are continually formed, combined and disbanded. These units can focus on products, channels, segments, customers, regions, suppliers, technologies and so on. The company can literally and simultaneously organize any way it wants to organize. The reconfigurability rests on three capabilities:

1. Extensive internal cross-unit networking.
   This capability was highlighted in this paper and is built through the aligned human resource policies. It attracts, holds and develops the flexible people who create the flexible organization.
2. Use of prices, markets and market-like devices to coordinate the multiple profit center units.
   An accounting and information system which permits an accurate and flexible determination of profit and loss on any dimension is the central tool underlying this capability.
3. External networking with partners to expand the capabilities which can be combined in creating new advantages.
   The same behavioral skills of cooperation, conflict management, influence without authority that are used in internal networking are indispensable in managing external networks.

The final element is a top management team that sees its value added as designing and supporting the organization’s reconfigurability.

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