

Emerging Approaches to Organisation Design

“Globalisation, technology advances and the changing competitive landscape are increasing the need for connections between businesses, countries and markets. Organisations need to develop to manage the complexity involved in global operations, and to adapt quickly to changing circumstances.”

Susan Mohrman and Gillian Pillans, report co-authors.



CORPORATE RESEARCH FORUM

All rights reserved.

Emerging Approaches to Organisation Design

No part of this publication may be reproduced, stored in a retrieval system or transmitted
in any form or by any means without prior permission in writing of the publisher.

Corporate Research Forum One Heddon Street Mayfair London W1B 4BD United Kingdom

ISBN: 978-0-9564488-2-8

Emerging Approaches to Organisation Design

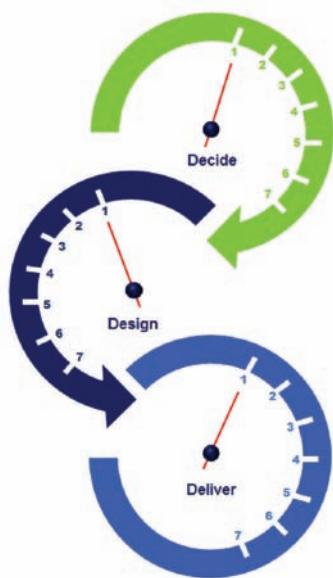
Susan Mohrman and Gillian Pillans

Contents

Foreword	6
About CRF	7
Executive Summary	8
Introduction	10
1 What is Organisation Design?	13
2 The Complexity Imperative	25
3 The Core Tension: Balancing the System and its Components	37
4 Beyond Hierarchy: Governing a Complex Organisational System	49
5 Organising to Manage Knowledge	59
6 Organising for Innovation and Agility	67
7 HR Implications and Conclusion	79
8 Appendix	87
9 References and Further Reading	90



Dimple Agarwal



The Deloitte **Organisation Design** method is a practical framework that promotes equal emphasis on

- (i) **Deciding** if structure is even the solution, and how you will unlock value and manage the effort
- (ii) **Designing** a precise and fit-for-purpose solution using a measured approach and
- (iii) **Delivering** through targeted implementation activities to realise the intended benefits of the redesign.

Foreword

Working with the 'C-suite' of organisations and supporting them through strategically important imperatives and challenges is always a hugely rewarding experience - which is one of the key reasons I have been an Organisation Design consultant for 20 years.

Over this period, I have worked with clients across sectors and geographies and have witnessed a significant evolution in the role organisation design plays in delivering strategic objectives. There has been a marked shift away from 'boxes' and 'wires' to a more holistic approach which includes governance, ways of working, leadership and culture and most critically – alignment to the organisation's strategy.

The latest CRF report evidences this shift; organisations today, as they become increasingly global, must balance the demand for growth in specific parts of the world with the need to be cost efficient elsewhere. In addition, changes in technology, more active and demanding customers, the need to constantly innovate and be flexible and the availability of significant data – has all added to the complexity within which organisations have to exist and be successful.

The report raises important questions including the role of lateral organisation and implications for HR – and how the HR organisation needs to 'get in position' to help with continual evolution of designs at all levels.

Deloitte has been a recognised leader in this space and I have had the privilege of leading our UK practice for several years. We have worked across a range of organisations and our view and approach to organisation design has continued to evolve – focused on creating and improving business value, more analytics and evidence based, focused on implementation as much as design.

Deloitte is pleased to sponsor this research by CRF which supports many of the conversations we continue to have with our clients.

Dimple Agarwal

Partner, Head of Organisation Design & Talent
Deloitte LLP

Acknowledgements

The authors are extremely grateful to all the research partners who gave generously of their time, experience and insights in compiling this report, and from whom the authors learned a great deal. We would also like to thank Deloitte for sponsoring the research and providing the Foreword.

Dr. Mohrman would like to acknowledge the support of Ed Lawler, founder and director of the Center for Effective Organizations (CEO) at the Marshall School of Business at the University of Southern California. CEO has provided a very special home for researchers interested in collaborating with companies to improve practice and make organisations healthier places to work and contribute to society. Susan Cohen (now, sadly, deceased), Allan Mohrman and Chris Worley have been beloved colleagues and co-authors in the investigation of many organisational design issues. A special thanks to Alice Mark, my friend and colleague, who has been part of the organisation design team at CEO for many years.



Susan Mohrman



Gillian Pillans

About the authors

Susan Mohrman

Dr Susan Mohrman is a senior research scientist with the Center for Effective Organizations at the Marshall School of Business, USC. She is widely known for her research and for her twenty-five books and many articles in the area of organisation design and effectiveness and on large-scale change. She has focused on the design of knowledge based firms and knowledge creating systems, and on design for sustainable effectiveness. Dr Mohrman has been actively involved as a researcher and/or consultant to a wide variety of organisations instituting innovative management systems and organisational designs, including Honeywell, Hewlett-Packard, Lockheed Martin, Texas Instruments, 3M, General Mills, Pfizer and PricewaterhouseCoopers.

Gillian Pillans

Gillian Pillans has worked as a senior HR practitioner and OD specialist for several organisations including Swiss Re, Vodafone and BAA. Prior to her HR career, she was a management consultant with Deloitte Consulting and is also a qualified solicitor. Gillian was author of *Developing an Effective HR Strategy* and has co-authored several other CRF reports.

About CRF

Founded in 1994, the Corporate Research Forum is a membership organisation whose international focus is on research, discussion and the practical application of contemporary topics arising from people management, learning and organisation development. CRF has become a highly influential focal point and network for over 130 members representing a cross-section of private and public sector organisations.

- Its annual programme of research, events and publications fully reflects members' interests, in addition to the annual international conference. Side meetings and interest groups are also initiated to meet challenges that members might have.
- Contributors are acknowledged experts in their field with a worldwide reputation as leaders and innovators in management thinking and practice.
- Sharing and collaboration among members is a key feature of CRF's activities. We actively encourage networking at all events, and especially through member lunches and HR director dinners.
- The Forum is led and managed by highly regarded former HR professionals who have a passion for delivering excellence in the leadership and development of organisations and people.

CRF's goal is to be valued for excellence, rigour, relationship building and providing an independent view which, together, lead to measurable improvement in members' people and organisation performance.

To join CRF or to find out more, see www.crforum.co.uk, e-mail [@C_R_Forum](mailto:enquiries@crforum.co.uk) or call +44 (0) 20 7470 7104.

About CEO

The **Center for Effective Organizations**, at the University of Southern California's Marshall School of Business, brings together researchers and business executives to jointly explore critical organisation issues that involve the design and management of complex organisations. Our mission is to improve how organisations are managed. In order to carry out our mission, the Center focuses on research that leads to actionable thought leadership.

- Our research actively involves companies as research partners and makes important contributions to academic research and theory and influences management practice and business education.
- The Center's research scientists and faculty are widely recognised as thought leaders in the fields of organisation effectiveness and design, change management, human resources management, strategy, sustainability, leadership, and other management areas.
- Results of our research are published in leading academic journals, books, and practitioner publications.
- The Center also disseminates its research learnings through public and customised executive education programs.
- Our network of corporate sponsors is comprised of leading corporations that represent a cross-section of organisations with a global presence.

To find out more information about the Center for Effective Organizations, visit <http://ceo.usc.edu> or email ceo@usc.edu or call the Center at 213-740-9814.

Executive Summary

1. Competition, interconnectedness, globalisation and the pace of change inherent in today's business climate mean that organisations need to be designed to cope with complexity. This report considers the challenges faced by complex global businesses, and the design choices they face.
2. The principal theoretical approaches to organisation design are highlighted, in particular the work of Jay Galbraith and his STAR model, which emphasises that business strategy is fundamental to organisation design, and that processes, reward systems and people practices need to be aligned with the organisation structure to deliver the chosen strategy.
3. We find that large organisations operating across multiple dimensions are faced with the dilemma of whether to maximise the benefits of synergy and scale or focus resources to achieve responsiveness and specialisation. Many of the companies we interviewed take a 'surgical' approach to organisation design, seeking simultaneously to achieve leverage in certain areas while maintaining focus in others.
4. We explore the 'lateral organisation', consisting of processes, networks and projects that complement the vertical hierarchy and allow work to be done across formal organisational boundaries. The lateral organisation is an important tool for managing complexity, allowing decisions to be devolved and made at speed. The use of lateral approaches also means the organisation design can be adapted more rapidly and flexibly than changing the formal hierarchy. Lateral approaches need to be designed with the same degree of rigour as the vertical structure.
5. The impact of emerging organisation design solutions is considered, in particular how they can help manage complexity and innovation. We specifically focus on:
 - organisational agility and how it leads to superior business performance;
 - team-based work designs;
 - the role of internal and external networks;
 - virtual and network organisations; and
 - designing for sustainability.
6. One of the key design challenges for organisations is achieving a suitable balance between organising so that individual business units have all the resources under their control to maximise performance in their local market, and organising to optimise the overall system through coordinating activities centrally to extract maximum scale and leverage. We find that there are few large organisations at either extreme of this continuum. Leading firms 'surgically' decide where to connect and where best value can be obtained from allowing units to operate independently, deploying a combination of approaches in line with their strategy. Most organisations we interviewed, however, are on a journey towards some form of coordination to optimise the overall system.

'It is increasingly unrealistic to expect corporate executives to be in close enough contact and sufficiently knowledgeable about what is going on in the various parts of the business to govern multiple dimensions effectively from the centre. The organisation must find approaches to governing from within and across.'

7. The role of the corporate centre in today's complex multinational organisations is in flux. The emphasis is on finding the right balance of leveraging resources and knowledge by carrying out work on behalf of the organisation, such as through shared services and centres of excellence; and coordinating activities across the dimensions of the organisation by:
 - providing frameworks or fostering networks or linkages; and
 - determining values, objectives and a shared sense of purpose that unite far-flung parts of the organisation.

Organisations carefully consider what aspects – such as risk, technology, brand, and reputation – will be centrally managed and where integration will be achieved through lateral networks and processes.

8. Governance is a key issue for organisation design. The complexity and global reach of today's large organisations mean traditional, hierarchy-driven controls are inadequate. Lateral structures are necessary to complement controls emanating from the centre. Organisations also need to combine 'hard' approaches to governance – such as cross-dimensional councils and boards – with 'soft' approaches focused on developing a common sense of purpose and values to drive consistent behaviours.

9. Knowledge is a critical source of sustainable competitive advantage. Organisations must be designed explicitly to identify, develop, sustain and leverage knowledge. Networks have a key role in helping foster innovation and improve business performance through deploying knowledge across the dimensions of the organisation. Networks increasingly extend beyond the boundaries of the organisation, with firms building extensive network connections to external contributors.

10. We highlight a paradox faced by organisations today: shareholder demands and economic conditions mean firms must achieve scale and operational efficiency, while simultaneously finding new sources of growth through innovation. Emerging organisation forms such as ambidextrous and network organisations help address this challenge. New technologies that facilitate online collaboration allow companies to reach beyond their boundaries to develop new ideas through open innovation and crowdsourcing.

11. Emerging practice in organisation design has significant implications for the HR function. The demands of managing complex, multi-dimensional organisations require different leadership approaches, and different solutions for talent management, change management and reward. However, there are opportunities for HR to take a leading role, both in helping design the organisation and in improving organisation effectiveness.

12. Organisation design is a difficult subject which requires organisations to find a path through the inevitable tensions, contradictions and trade-offs. There is no single answer that is suitable for all organisations, or for any one business through time. The key is to find solutions that allow the inherent tensions to be managed while allowing the organisation to adapt quickly to changing circumstances and strategies.

INTRODUCTION

Purpose of this Report

Our intent is to provide a thought-provoking and example-rich document, to help you reflect on the tensions and trade-offs experienced by your company, while simultaneously highlighting the variations in approaches and trade-offs that are entailed. Our objective is not to provide a 'how-to' guide to redesigning organisations. Many of the publications cited in the reading list at the end of the report will be useful in that respect.

We will concentrate more on the overriding issues of strategy, the capabilities that organisations are trying to develop to accomplish their strategies, and how they impact overall **design**. The report does not focus on some of the more 'nitty-gritty' aspects of organisation **structure** such as how many layers are appropriate in the hierarchy, or what is an optimum span of control.

We start with a brief overview of organisation design frameworks and focuses and how they have changed through time, as environments and organisations have increased in complexity. Further detail is provided in the Appendix. We then look more closely at various topics of design and the specific design challenges they entail.

This report chronicles some of the major organisation design challenges faced by global corporations today. It provides case based accounts of how companies are experiencing these challenges and how their designs are evolving accordingly. It is intended as a framework for understanding the tensions and trade-offs involved in designing contemporary global organisations and possible pathways through them.

Today's large global firms operate in a complex world. They grapple with:

- increasing market demands and stakeholder expectations;
- fundamental shifts away from a western dominated economy and the associated emergence of robust economies, markets, and competitors around the world; and
- the relentless and rapid unfolding of technological capabilities that lead to unprecedented levels of interconnectedness, personalisation, access to information, and new ways of working.

To thrive in this rapidly changing context, they are challenged to achieve global scale and address local needs simultaneously. They must move quickly, compete on margin, add value, and innovate continuously not only to find avenues for growth, but often just to stay in the game, in an era of disruptive change and rapidly evolving customer expectations.

Complexity comes from the vast array of dimensions an organisation must effectively deal with, and the breakneck speed with which markets, competition, technology, and societies change. To grow and prosper, organisations must increasingly be able to manage diversity of:

- customers and the channels to reach them;
- countries and cultures;
- products, services and solutions;
- deep, rapidly advancing, and specialised knowledge bases and professions; and
- employees.

They must build new functional, cross-functional, and cross-organisational capabilities – to compete through innovation, operations, commercialisation, and market building. They must change as rapidly as the environments in which they are functioning change.

How do companies organise to handle such complexity? To move organisations towards new and fruitful pathways, they must become good at doing many things in complicated and diverse contexts. Companies have to organise to carry out many highly interdependent tasks effectively. The organisation design has to enable the firm to:

- decide where to invest,
- prioritise and make continual trade-offs;
- effectively manage thousands of interfaces;
- advance their knowledge and innovate;
- leverage resources for efficiency and speed; and
- take advantage of the rapidly advancing technology that enables them to do almost everything differently than they did yesterday.

Perhaps at one time organisations could put in place a core design which evolved slowly as they grew and had to deal with the complexities of scope and scale. Perhaps they could live with inefficiencies in an environment where customers had fewer choices and were less informed, and

where analysts, investors, and other stakeholders were not continually nipping at their heels. That benevolent world started disappearing several decades ago, with technology-led global integration, opportunities opening up in far-flung regions, emerging economies and industries applying new competitive pressures, and industry convergence or obsolescence arising from disruptive innovations. Large established companies began to sense and fight their inertia.

Organisation designs have not stood still. In the last several decades we have seen new approaches such as network organisations, virtual work, globally integrated supply chains, complex matrix and multi-dimensional organisations, global product lines, and large-scale outsourcing of back-office, as well as technical and professional activities. A proliferation of new organisational arrangements has emerged from mergers and acquisitions, joint ventures and other forms of partnerships and cooperative relationships between competitors.

Although design innovations are often introduced by innovative young companies, more established companies often have no choice but to emulate new approaches, to derive the benefits of efficiency, leverage, flexibility, and increased access to markets around the world. Yet these changes do not come easily.

There are a number of tensions built into the designs of today's global organisations – born of the complexity they are trying to solve through their design. In this report we set out to highlight key design challenges and tensions faced by global organisations today, and to use company examples to illustrate the available range of choices and approaches.

Organisation design is a difficult and complex subject, combining issues of strategy, structure, networks and relationships, processes and people practices. There are no 'right' answers – designs must be crafted in line with strategy and business objectives.

Design decisions are trade-offs. Theoretical models can be used to think through issues and identify possible solutions, but do not offer a 'one-size-fits-all'. The latest fashion in organisation design – whether that is matrix structures, networks, or ambidextrous organisations – will not necessarily suit the unique situation of every firm.

Another factor is that organisation design has strong consequences for many stakeholders. Design decisions often reflect deep-seated values and beliefs: of the founder, leaders, industry, or society. Design decisions are political – they are usually made by those in power and may either preserve or disrupt power distribution both within the organisation and with respect to outside stakeholders. Although theoretically driven by strategic considerations, design decisions nevertheless have strong consequences for employees. Design determines the context within which their careers develop and impacts on their lives overall. The interests of many other stakeholders – analysts, shareholders, local communities and governments – are affected by how the organisation design operates.

All of these considerations – strategy, environmental pressures and opportunities, business models, technology, performance targets, values, beliefs, preferences, and shifting power relationships -- play a role in the unfolding of organisations today. These factors are all in play as we look at tensions, trends, and emerging practice.

Research approach

This report is a joint effort between the Corporate Research Forum (CRF) and the Center for Effective Organizations (CEO) in the Marshall School of Business at the University of Southern California. Our research purpose was to understand and depict the organisation design challenges and choices being experienced by major global companies in a variety of industries.

We conducted structured yet open-ended interviews with HR executives in 15 companies: Associated British Foods, AB Sugar, BAE Systems, Barclays, Dyson, GSK, Intertek, Rolls Royce, Serco, Standard Chartered, Thomson Reuters, Unilever, United Biscuits, Microsoft, and Vodafone. Our questions were guided by recent thinking and research about organisation design and by learning from the many case examples that appear continuously in the press and management literature.

We also bring in other research undertaken by CEO. Much of it is illustrated with examples that appear in the management and business literature, and from the pattern of issues that companies have brought to CEO's long-standing practicum-based certificate programme in organisation design.

WHAT IS ORGANISATION DESIGN?

1

WHAT IS ORGANISATION DESIGN?

Topics covered	Introduction
1.1 Definition 14	In this chapter we define organisation design and explore its key elements. We also briefly review some principal theoretical frameworks as well as current and future approaches to organisation design.
1.2 Elements of Design: The STAR model 14	
1.3 Managing Multiple Dimensions 15	
1.4 Designing the Lateral Organisation 17	
1.5 Innovative Organisation Forms 19	
1.6 Agility 20	
1.7 Designing for Sustainable Effectiveness 23	

"The organisation design is never right – there are always trade-offs and it's always evolving. The key is to know where you are going and use the design to help you get there."

Geoff Lloyd, Group HR Director, Serco

Other Useful Models

The main body of theoretical work around organisation design referred to in this report is by Jay Galbraith, although we refer to other theory where relevant. We would also highlight the following which can be considered alongside Galbraith's work:

- **Nadler & Tushman's Congruence Model:** uses systems theory to provide a framework for considering the different elements that drive organisational performance and how they interrelate.
- **Goold & Campbell's organisation design tests:** the authors developed a set of principles of good organisation design together with nine tests that can be applied to diagnose the effectiveness of the current organisation or evaluate design options.
- **McKinsey 7S model:** identifies seven factors (strategy, structure, systems, staff, skills, style and shared values) that need to be aligned for an organisation to operate effectively.

Further information on each of these models can be found in the References.

1.1 Definition

Jay Galbraith, one of the leading thinkers in the field of organisation design, 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)

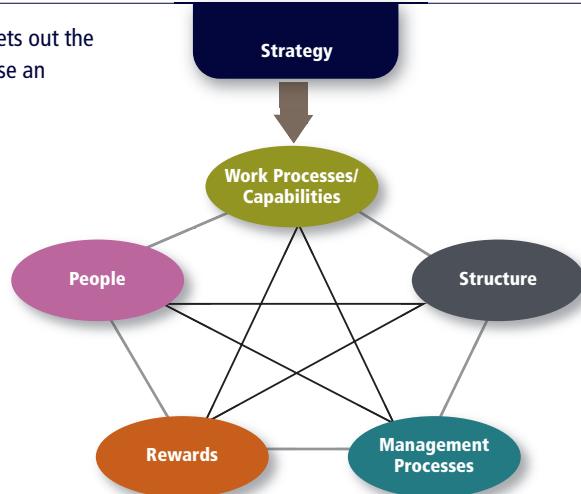
To this definition we would add the concept of multiple stakeholders. To achieve the business strategy, an organisation design must enable the attainment of financial results as well as outcomes valued by employees and customers. These definitions highlight some key points about organisation design:

- The start point for any consideration of organisation design must be the company's **strategy** and **business model**. These define the organisation's mission, including the value it will deliver to customers and society, and its economic logic for success.
- Organisation design is about more than just the organisation structure or organogram. It covers the formal structure and networks, processes and governance mechanisms that enable work to be done. It also considers policies and practices that support – or may inhibit if designed incorrectly – effective operation of the design.
- It also must enable the organisation to secure access to the talent and knowledge required to carry out its strategy.

1.2 Elements of Design: The STAR model

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

Source: Adapted from Galbraith (1994)



"Organisations based around a single dimension of focus are unlikely to be ... able to cope with the complex realities of today's competitive world." **Goold and Campbell (2002)**

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 coordinated. It includes the definition of the core hierarchical units of the organisation 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:
 - a. Management processes determine the company's direction and allocate scarce resources, such as funds and talent, to different purposes and priorities.
 - b. 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 outcomes to accountabilities that are linked to organisational success.
5. **People practices** influence and sometimes define employees' mindsets and skills, and are central to the attraction, retention, and utilisation of talent.

1.3

Managing Multiple Dimensions

Organisations generally start out as a single integrated business with a functional structure. As they grow and become more complex they may break into focused business units defined by a particular dimension – such as product/service, customer, or geographical divisions. The strategy helps clarify which of the various design dimensions should take the lead. For example whether business units should be delineated by products, customers or geographies, or whether there will be a combination of different kinds of business units.

Business units, asked to optimise their business performance, naturally want to manage and control all the functions necessary for their business success. The organisation is focused on overall corporate performance and strategy. It wrestles with the level of autonomy it should afford the business units, and what cross-business control, leverage and synergy will benefit the corporation.

STAR Model in Practice

The implications of the STAR model are:

- Different strategies lead to different organisations. Some designs – such as matrix organisations – go in and out of fashion, but the chosen design must match the organisation requirements, derived from strategy.
- All elements must be considered to achieve a design that is properly aligned to deliver the chosen strategic direction. Each aspect of the STAR influences and depends on the others.
- Organisation design involves trade-offs. For example, strong local business units may mean a company is customer focused and has a good understanding of local markets, but may lead to duplication of activities which could be avoided by having a functional structure.

"The two-dimensional matrix [corporate function-business unit] is standard practice... Today the challenge is to implement the three- and four-dimensional matrix across international borders."
Galbraith (2009)

Dimensions of Organisation Design

Throughout this report we refer to the concept of dimensions in organisation design. The most common dimensions around which companies tend to be organised are:

- **Functions** – major activity groups such as Sales, Marketing and Manufacturing.
- **Geography** – physical locations such as countries or regions.
- **Business units or product lines** – organised by business, product or service type, with each having its own functional structure to support. For example, many banks have separate divisions for retail and wholesale banking.
- **Customer** – organising around major customers or market segments, for example organising globally to provide a consistent service to specific large global customers, or to particular market segments.
- **Processes** - organising around core operational processes such as new product development or order fulfilment.

Each dimension has its inherent advantages and limitations. The Appendix contains a table which sets out the circumstances in which each of these dimensions is most applicable.

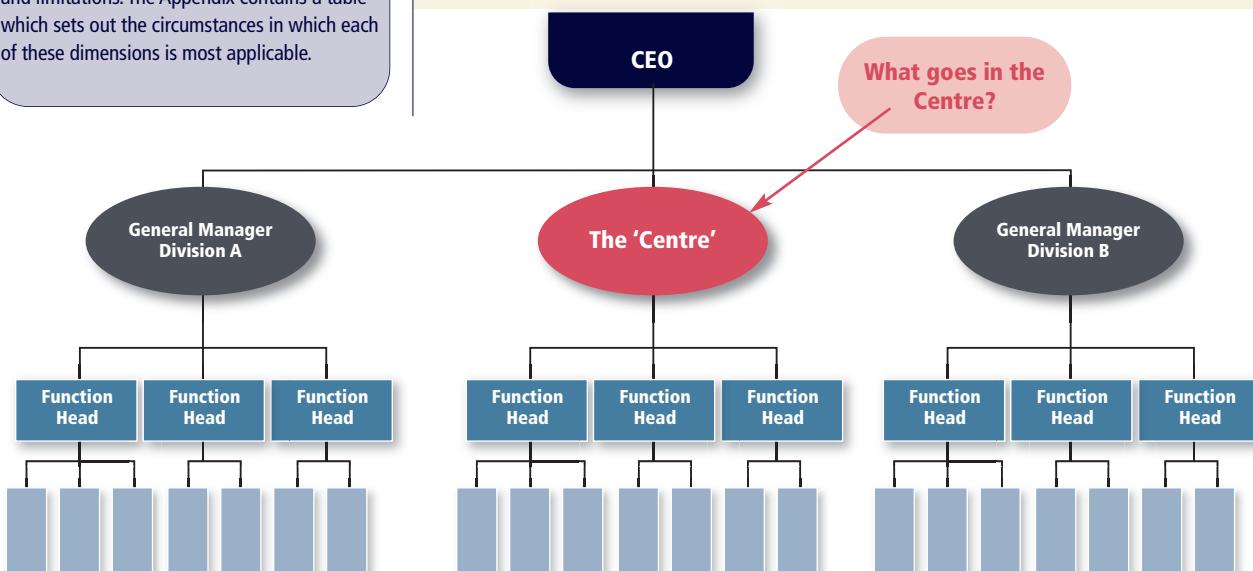
Key questions in designing complex organisations include:

- What is managed from the centre, and what is self-contained in business units? (See figure below)
- Where should the corporation benefit from common practices and policies, and where should it benefit from diversity of practice and dispersion of resource control across the business units?

In today's world, many organisations have no choice but to focus simultaneously on multiple dimensions and to seek the benefits of synergy and coordination across different dimensions. They may have to establish both responsive local businesses and address the needs of global customers that require integration across territories, while leveraging investment in multiple product and service delivery technologies.

This complexity can lead to what we would describe as a 'surgical' approach to design. Vodafone, a business built on local business units developed largely through acquisition, wants to keep its responsiveness to the local market. However in recent years it has developed global functions in areas such as technology, supply chain and multi-national enterprise sales, to achieve the benefits of scale and address the needs of global customers consistently.

Generic Divisional Structure



"Cross-functional decision making is a complex coordination process that requires special skills and knowledge, such as negotiation and the ability to see a whole system, and sophisticated management support processes, such as enterprise-wide information systems."

Lawler and Worley, 2011

Globalisation, technology advances and the changing competitive landscape are increasing the need for connections between businesses, countries and markets. This results in increasing complexity. It may be desirable to have a simple, easily understandable organisation structure. In practice organisations need to develop, to manage the complexity involved in global operations, and to adapt quickly to changing circumstances.

In the following chapters we explore how companies are designing for complexity in practice. In the remainder of this chapter, we highlight a number of design approaches that are being deployed to build greater responsiveness to change into organisation design.

1.4

Designing the Lateral Organisation

The need for adaptability in the face of complexity and the requirement to organise across different dimensions means firms need to be proficient in developing and operating a 'lateral organisation'. The formal structure often does not reflect how work is actually done. Processes and work projects cut across dimensions, and across the boundaries of the vertical structure. Work is increasingly knowledge based, with technology removing the need for people to work together physically. The lateral organisation allows information and work to cross boundaries, and is often more flexible and adaptable than the core units.

- 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.
- Focusing on lateral design means companies can respond quickly to strategy shifts without having to restructure every time.

Lateral structures can be temporary or permanent. They are established to carry out a particular product development project, to commercialise a product, or to build, maintain and evolve a solution for a customer or market segment (see the column for a description of the different types of lateral structure). Teams can be formed and reformed as the need for them comes and goes 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.** In the following chapters we highlight situations where aspects of the lateral organisation can be deployed to meet specific organisation goals, such as encouraging learning or improving return on investment in research and development.

Five Types of Lateral Capabilities

Jay Galbraith identifies five types of lateral capability which can help achieve the adaptability required to respond quickly to changes in the business environment. As the diagram below demonstrates, they sit on a continuum, reflecting the degree to which they are formalised:

- | | | | |
|---------------------|---|----------|--|
| CAN OCCUR NATURALLY | <ol style="list-style-type: none"> 1. Networks – interpersonal relationships that coordinate work informally. 2. Lateral processes – move decisions and information through the organisation in a formal flow. 3. Teams – more formal cross-unit structures bringing people together to work interdependently and share collective responsibility for outcomes. | ELECTIVE | <ol style="list-style-type: none"> 4. Integrative roles – coordinating or boundary-spanning roles that orchestrate work across units. 5. Matrix structures – formalise dual or multiple reporting structures in order to manage the conflicting needs of different dimensions of the organisation. |
|---------------------|---|----------|--|
- INCREASING COMPLEXITY, MANAGEMENT TIME AND ENERGY

Source: Adapted from Galbraith (2002)

Networks

The importance of networks in organisations has become increasingly evident as:

- organisations have become larger and more dispersed;
- information technology systems have evolved into tools that can easily connect people anywhere with each other; and
- competition is increasingly based on the ability of the firm to generate, leverage and apply knowledge.

Organisations have become aware that building social capital – employees' connections to others who are sources of knowledge and who can connect them to important resources – is an important complement to building human capital (the knowledge and capability held by individuals).

Scholars such as Rob Cross have focused on the importance of:

- identifying the key pathways where knowledge exchange and combination can promote greater organisational performance; and
- setting up policies and practices that encourage lateral connectedness along those pathways.

Notes from Rob Cross's CRF workshop in June 2013 can be found on the CRF website; his 2009 book is referenced in the Further Reading section.

Our research has found a surge in organisations both:

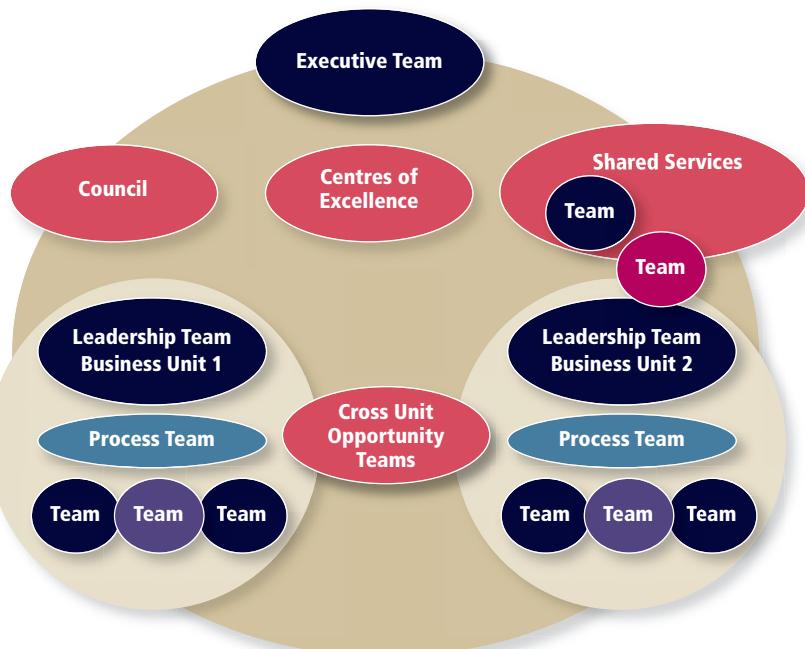
- proactively building formal networks; and
- encouraging and supporting networks as a way to leverage knowledge, disseminate innovation, and draw together the various perspectives to share and shape good practice.

Designing for Team-Based Work

In the 1980's organisations started to discover the importance of organising around processes, largely thanks to the quality movement. This showed that quality issues were often caused by the inability of the organisation to coordinate across 'white spaces', i.e. the gaps where activities fall between different parts of the structure. Many companies began assigning cross-functional teams to carry out complete processes such as discovery and innovation, new product development, and commercialisation. This resulted in improved organisational outcomes such as speed, quality, customer satisfaction, and knowledge leverage.

Working laterally has not been an easy sell. Most of the design features of the traditional organisation fit with vertical, hierarchical processes, and orient employees to the goals and objectives of their core business or functional units. The requirements of operating laterally can make it difficult for individuals to balance the organisation's overall goals with the specific objectives of individual units. A design framework developed from research at CEO (Mohrman et al, 1995) suggested that in organisations where much of the work is carried out in cross-functional processes, the lateral dimension should be systematised by creating formal structures with clear authority, goals and accountabilities, budget control, operational control, and rewards. The figure below shows a way of depicting and conceptualising organisations in which teams are the performing units.

Lateral Organisation

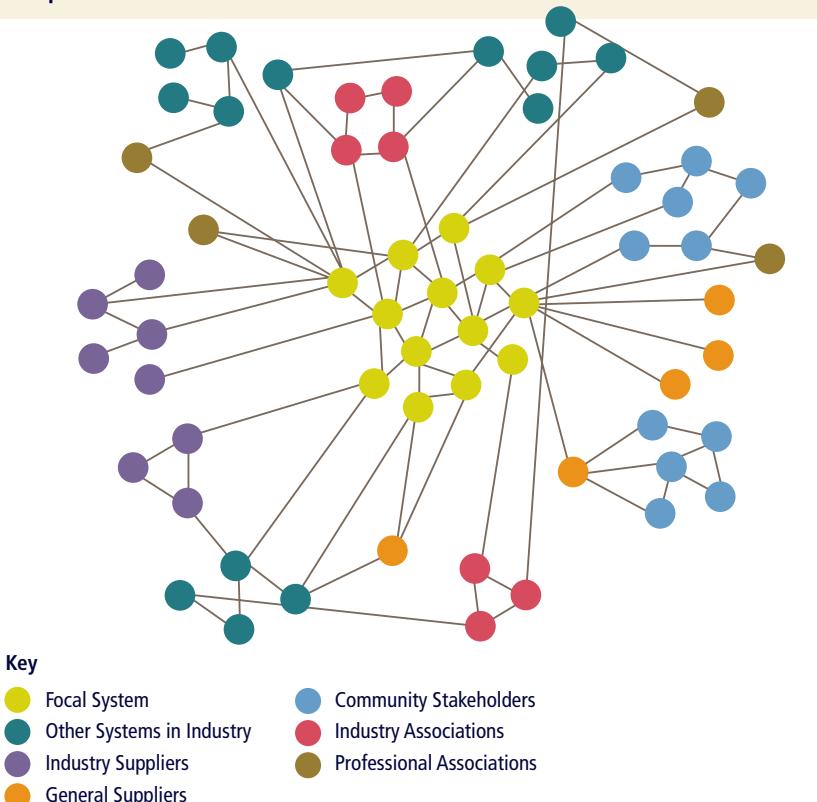


1.5

Innovative Organisation Forms

The growth of network-based organisations has not just affected how corporations are organised internally. An emerging organisation form is the IT-enabled 'network' organisation which is organised as a series of 'virtual' external networks (see figure below).

Sample Network: A Web of Connections



One of the early adopters of this approach was Toyota. It established an 'eco-system' of suppliers and partners that enabled it to grow rapidly in revenue, volume, geographic reach, and profit without commensurately growing the employee base. This was achieved by building a network of suppliers, connected through common IT systems that allowed functions such as ordering, inventory management, and billing to be fully connected and automated. The eco-system also included a learning system designed to ensure that business and technical roadmaps were developed in an integrated fashion. Today, technology enablers such as social media, crowd-sourcing and cloud computing make it much easier to establish such networks without significant capital outlay.

Complexity Driving Emerging Organisation Forms

Design decisions no longer simply define the organisation's core hierarchical units and how performance is managed. Many more 'surgical' design choices are required to handle the complexity of dimensions global organisations today are required to manage. Over the past decades, we have seen the emergence of new forms of organisation to address this complexity. These include:

Network Organisations: dynamic networks of contributors from many dispersed units and/or companies are formed to carry out key work such as pursuing new business opportunities, advancing capabilities needed by multiple units, and building an integrated eco-system.

Front-Back Organisations: Separately managing the 'back end' of the organisation (including research and development and supply chain) for efficiency and operational excellence, and managing the customer-facing 'front end' for customer intimacy, responsiveness, customisation, and revenue growth.

Ambidextrous Organisations: Simultaneously managing the core business while also managing new, innovative businesses that require investment and may entail a different model.

Joint Ventures: Combining resources and capabilities with another company, perhaps even a competitor, to pursue opportunities and build jointly managed businesses.

This model was also adopted by major technology organisations, such as Sun Microsystems, Apple, and Microsoft, who chose the most strategic areas to manage and operate internally, and developed close partnerships in other interdependent areas. Sun Microsystems concentrated on hardware and built a network of software developers. Microsoft was the reverse, focusing on software systems, and partnering with hardware makers and applications providers.

This model of outsourcing through close partnerships with vendors has spread to many industries. The clothing industry now operates an integrated supply chain consisting of vast networks of factories. Many corporations have outsourced most of their back-office functions and some of their customer service, engineering and software development functions. They generally operate through seamless, IT-enabled processes, offering 24 hour service and development and reducing costs by using a large IT-skilled workforce in lower-wage countries.

The column describes some organisation forms which have become more common as companies strive to deal with complexity.

1.6 Agility

Given the dynamic and uncertain nature of today's organisational environments, one of the key current trends is a focus on design for agility. Chris Worley and other researchers at CEO have found that corporations that maintain industry leadership over several decades are able to anticipate and adapt to changes in their environment over a sustained period. They continually innovate and build new capabilities through excellence in four key routines. These routines, which have to be embedded in the design of the organisation, are:

1. dynamic strategising;
2. perceiving environmental change;
3. testing new approaches and learning; and
4. implementing change.

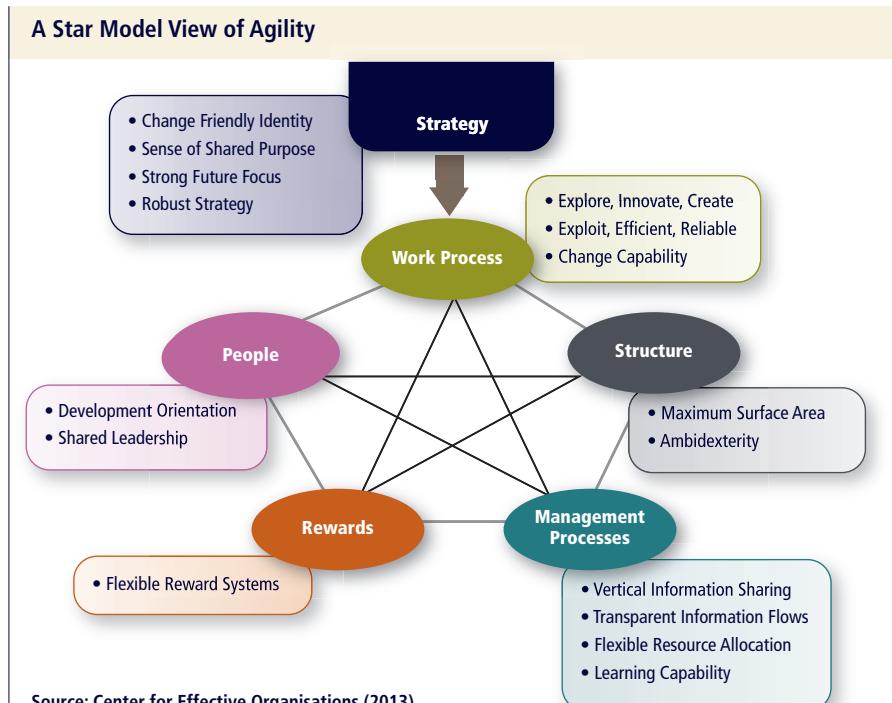
The first figure below sets out the critical elements that make up each of the four routines identified by Worley and his colleagues. The second figure demonstrates how agile management practices relate to Galbraith's STAR model.

"Today, when every industry faces turbulent change as a matter of course, a company's agility becomes the difference between sustaining performance and falling behind."

Williams, Worley and Lawler, 2013

Routine	Critical Elements	Description
Strategising dynamically	Sense of shared purpose	The purpose or mission (outcomes other than profit or growth) and the business model (how we make money) are widely shared. Values embedded in these statements drive behaviour on a daily basis.
	Change-friendly identity	There is a clear sense of 'who we are' and 'what inspires us.' This long-term strategy explains success and encourages the organisation to change.
	Robust strategic intent	The current business strategy relevant in today's market, described by its breadth, differentiation, and aggressiveness, but seen as momentary and flexible.
Perceiving environmental change	Sensing	The organisation explores the future deeply, and many parts of the organisation touch the environment continuously.
	Communicating	Information from the environment gets to decision makers rapidly, in an unfiltered way. Information flows easily, in both directions, between the bottom and top of the organisation.
	Interpreting	Information is evaluated on the basis of the company's existing identity, intent, business model, and risk tolerance.
Testing responses	Slack resources	Capable resources (people, money, time, tools) are available and can be readily deployed to experiment with new ideas.
	Risk management	These experiments are bounded by clearly agreed-upon criteria for judging success and failure; the possibility of failure is accepted, as a vehicle for learning.
	Learning	Experience with running experiments is captured and applied with each new round, so that the company's capabilities are continuously improved.
Implementing change	Management and organisational autonomy	Executives delegate sufficient authority to line and business managers so that the company can execute changes with success; there is no second guessing from HQ, only alignment around basic strategic objectives.
	Embedded change capability	The pragmatic ability to change collective habits, practices, and perspectives is embedded in line operations, not isolated in staff groups.
	Performance management	Clear, unambiguous, accepted performance measures and targets are based on business model drivers with rewards that matter.

Source: Williams, Worley and Lawler, 2013



In their book 'Built to Change', Worley and Lawler identify design features that allow the organisation to adjust to continual change. These include:

- structuring so that employees, teams, and business units are continually exposed to feedback from the environment, and can learn and adapt;
- creating flexible business units; and
- managing talent with broad competency models and flexible deployment rather than through specific and constrained job definitions.

The anchors that allow continual organisational adjustment are the shared values and beliefs, and the identity of the corporation. We will see that a number of the companies we interviewed rely on these foundational sources of shared meaning, to provide the glue that allows them to adapt and prosper in the face of complexity.

1.7

Designing for Sustainable Effectiveness

Just as values, beliefs and identity are key anchors of agile design, they are also key elements of the recent focus on sustainability and corporate responsibility that is leading to changes in organisation design. Companies and their stakeholders are becoming increasingly aware that the natural and social eco-systems on which humanity and companies depend are fragile. Firms such as Unilever, Nike, NovoNordisk, General Electric, Toyota and many others have made sustainability a cornerstone of their strategy and the way they organise. They have set out to improve the lives of people and the condition of the planet while building enterprises that are sustained by solid financials and profitability.

Traditional organisation design optimises financial outcomes and shareholder value. CEO research finds that designing for sustainability entails aligning the various elements and dimensions of the organisation to deliver on a broader set of purposes and outcomes. The problems that need to be solved extend well beyond the boundaries of the organisation, and addressing them requires multi-stakeholder collaboration.

Sustainable design entails:

- Industry-wide and multi-stakeholder collaborative structures, such as to establish new standards of conduct and impact, and to develop supply chain human rights and environmentally friendly practices;
- Cross functional and cross-organisational networks to learn new approaches to deliver social and environmental value;
- Deep community connections that contribute to development and health of the communities in which the organisation operates; and
- Transparent social and environmental metrics.

Companies that are leading the way towards more sustainable models are finding that this transition challenges many of the assumptions underpinning traditional design, with particular emphasis on networks of collaborative inter-organisational activity.

In the next chapter, we examine concrete examples of increased complexity and the design challenges companies are addressing.

THE COMPLEXITY IMPERATIVE

2

THE COMPLEXITY IMPERATIVE

Topics covered	Introduction	
2.1 Strategic Realities Driving Complexity	27	In this chapter we explore the sources of complexity that influence organisation design. We also consider how that complexity is pushing firms towards evolving their organisation to incorporate the strategic shifts required to do business on a global scale in an interconnected world.
2.2 Globalisation	27	
2.3 Convergence	31	
2.4 Emerging Designs for Complexity	33	
2.5 Coordinating in the Face of Complexity – Making the Dimensions Work	33	
2.6 Key Tensions in a Multi-Dimensional Organisation	35	

"The company needs an organisation as complex as its business and ... it needs an organisation that changes as fast as its business." **Galbraith (2000)**

Up until the late 1900's, organisational forms were mostly variants of a hierarchical functional model. They handled the complexity of growth by:

1. chunking themselves into focused divisions or country organisations;
2. adding new units to handle new dimensions, such as adding an international division; and
3. layering themselves with span-breakers as their divisions were chunked into bigger groups or sectors of businesses.

The amount of value-adding activity carried out across business units by groups, sectors, and even by the corporation itself depended on:

- how related the businesses were;
- the opportunities for synergy; and
- the corporation's management philosophy.

Companies like Hewlett Packard and 3M, are famed for their philosophy of self-contained divisions, managed by divisional business results and high level principles and values, but also for their light-touch control of businesses from the group, sector and corporate levels. It is notable that, in the interests of preserving highly motivated, autonomous and fully accountable business units, such companies were willing to forgo benefits of leverage and synergy.

For most companies, this reliance on self-contained business units has gradually changed during the past 20 years. The pursuit of growth, competitiveness, and strategic viability has required companies to seek leverage, often globally. In many industries, the marketplace has rewarded leverage, synergy and integration. The use and importance of the lateral organisation has skyrocketed.

Companies have evolved their organisation in response to the inherent complexity of doing business on a global scale in an interconnected world. Globalisation and technology are leading to changing business strategies that require new designs.

The most fundamental design challenge is to configure the operating organisation to deliver the value required to carry out the strategy. This requires aligning the organisation with key value-adding processes, and designing all aspects of the organisation to carry out these processes effectively in a dynamic environment.

"Digitisation, disintermediation and emerging innovative companies are a massive challenge for our industry, both in terms of the growth of competition and the efficacy of the regulatory environment." **Tracy Clarke, Group Head of Human Resources and Communications, Standard Chartered Bank**

2.1

Strategic Realities Driving Complexity

Technology advance and globalisation are inextricably linked to each other and to the changing strategies and designs of companies. Both the necessity and the cost of discovering, developing and applying technology have increased for companies throughout the world.

- Technology has enabled the connectivity that allows a truly global economy.
 - Customers have simultaneously become global, and in order to compete in relevant marketplaces, many organisations pursue global strategies.
 - Companies often seek greater scale and global markets in order to recoup the costs of technology.
- Here, we deal with two strategic drivers of complexity: globalisation and technology convergence, and give examples of companies facing design challenges in responding to them.

2.2

Globalisation

Jay Galbraith has identified a number of levels of internationalisation through which organisations typically pass en route to becoming global businesses (see the column). A company may first enter new export markets and gradually establish increasing international presence. Generally it first sets up sales and marketing capabilities in markets around the globe. It then locates business functions globally – operations, supply chain, product management and eventually R&D. Ultimately the company may become a truly integrated global organisation with business leadership coming from subsidiaries around the world, and with global, multi-dimensional integration. As a company becomes internationalised:

- an increasing proportion of its assets and operations are located outside the home country;
- more of its employees, managers and officers are non-nationals;
- there is an increasing flow of activity from international markets to the home country and other locations rather than a one-way flow from the home country to international markets; and
- the organisation becomes more complex and reliant on co-ordinating mechanisms (as opposed to the formal organisation hierarchy) to operate effectively.

As they become increasingly global, organisations are faced with a recurring need to adapt their design. As an example, companies financed by government spending are currently encountering decreasing home government expenditures that threaten their business models and call for an enhanced commitment to becoming global. Aerospace and Defence firms, for example, have traditionally been organised in relatively self-contained business units - often groups of related programmes defined by customer sets and technology/product domains. Government funding has largely covered the costs of technology development. Defence firms are highly regulated and have largely been restricted to exporting products and services to friendly governments. International contracts have primarily been managed by the programmes themselves.

Galbraith's Levels of Internationalisation

Level 1 – Export Mode

National company complemented by sales companies in international markets.

Level 2 – Partner Mode

Foreign operations conducted through a joint-venture partnership – usually with a local company – in the new market. Usually used to learn how to do business in a new country, particularly markets that are difficult for foreign companies to penetrate.

Level 3 – National Company with International Division

Foreign subsidiaries contain multiple functions such as distribution, customer service and manufacturing. Subsidiaries operate independently of each other.

Level 4 – Multidimensional Network

Foreign subsidiaries operate within a multi-dimensional network. Cross-unit coordination capabilities are developed to build and maintain strong links across subsidiaries. Home country headquarters takes the lead in defining strategy and coordinating the network.

Level 5 – Transnational Organisation

Subsidiaries take an active role in creating strategies, products and competitive advantages, which are transferred to and implemented in other subsidiaries as well as in the home country. Headquarters functions are distributed throughout the organisation geographically.

Source: adapted from Galbraith (2000)

"Becoming a global business is an exciting challenge for our people and for HR. Clearly this offers great opportunity for our people to work in more international roles than they might have expected when joining a defence company, and we have to find cost effective yet attractive ways of mobilising them to support our new business areas."

John Whelan, HR Director, Programmes and Support, BAE Systems

Case Notes

BAE Systems is an example of a company facing the design choices entailed by globalisation. Shrinking national defence budgets and the need to pursue business in new areas, mean BAE Systems is grappling with new relationships with customer nations, and with the need to extend and strengthen its presence in these nations. The region vs. product axis is being tested as it strives to be flexible to meet different country requirements, while guarding the national interests of domestic markets. While still organising primarily around the large technology-defined programmes as key business units, the company is expanding its regional presence through a hybrid of programme-specific country organisations and multi-program regional operations and support. It is strengthening some key roles of the centre, such as risk management, ethical business conduct, and leadership and people processes. BAE Systems is taking a surgical view of what to leverage.

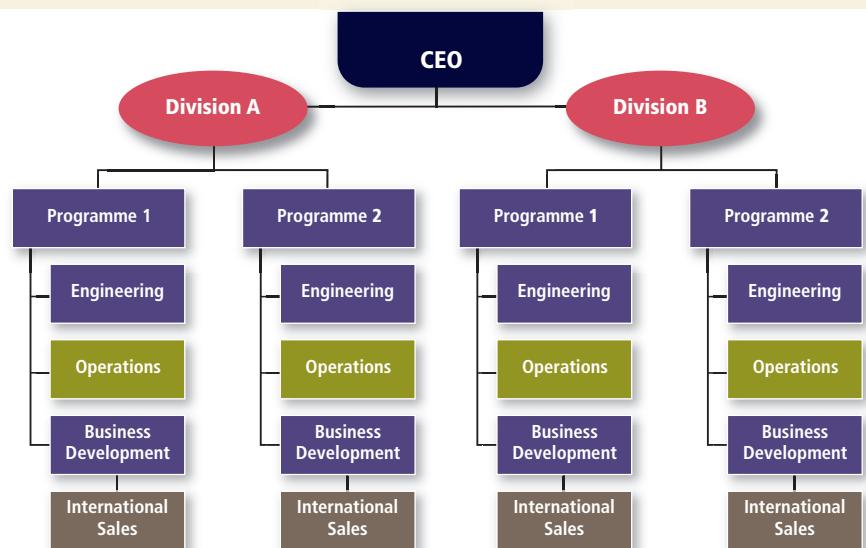
The environment for Aerospace and Defence firms has changed markedly:

- Home markets have shrunk and governments have become less willing to cover technology development costs fully.
- At the same time, foreign governments have become more interested in buying advanced systems but also more demanding of the opportunity to develop local skills, local content, and eventually local systems development capability.

These factors are conspiring to change the export-only strategy of these firms, and to extend their domain to include both security and defence. These companies are rethinking a design that has been based largely on domestic development, manufacturing and assembly, configured around large programmes that make it difficult to share knowledge and flexibly leverage resources. The status quo was to employ a large workforce of national employees, but many international customers are now demanding the hiring and training of local workforces. All the while, strong regulatory and national security requirements with respect to protected and proprietary technology must be managed.

The figure below shows a notional example of how such firms have traditionally been structured as domestic companies with international export responsibility lying with specific programmes.

(Simplified) Domestic Aerospace and Defence Company with International Sales

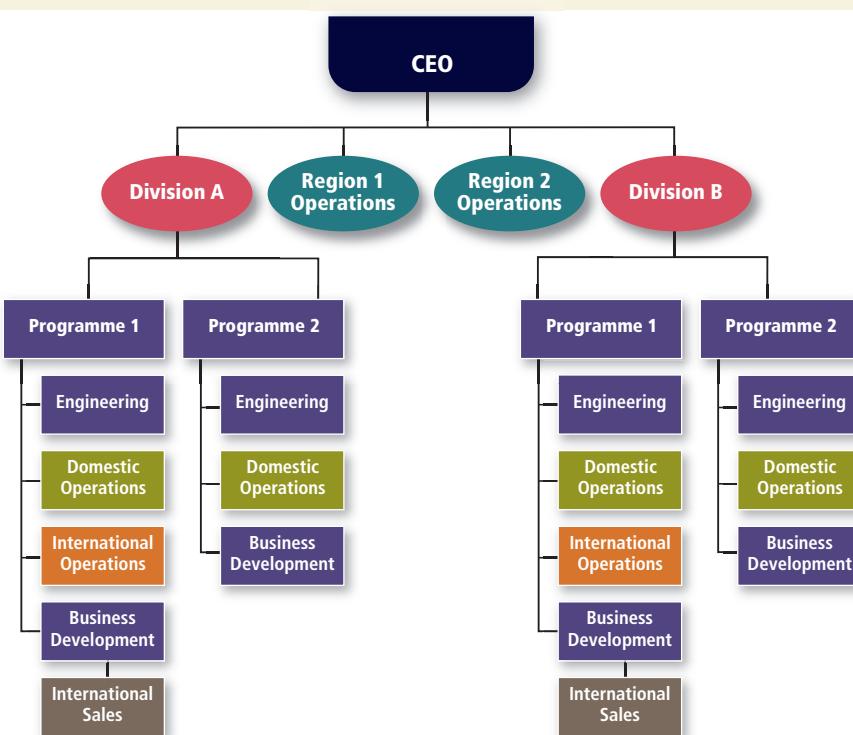


The next figure shows different structural approaches that can be used to develop operational capability internationally. One choice is for the international operations to be managed by the particular programme that has secured the contract. Alternatively, where multiple contracts are sold to a country, the company may choose to start building regional operational capability. This enables the building of a more stable operating presence, one that can effectively build and utilise local capability.

"One of the principles our organisation is built on is to keep control of the aspects of the organisation that directly touch the customer within local markets. For everything else, we are on a journey towards becoming more and more laterally coordinated across the organisation."

Raja Al-Khatib, Group Organisation Effectiveness Director, Vodafone

(Simplified) Domestic Aerospace and Defence Company with International Operations



Case Notes (continued)

The telecommunications industry has also become global, and has evolved its organisation design accordingly. Historically, **Vodafone** based its design around local businesses with local CEOs – who have proximity to their customers and understand local market trade-offs. Faced with the imperative to provide competitively priced global service, the organisation is now focusing on preserving local responsiveness while building a global network, integrating mobile capabilities, and achieving leverage globally.

- Vodafone has developed a number of 'Verticals' – functions which are organised on a global basis. This began with the technology and supply chain functions, focusing on standardisation of technology to achieve economies of scale and speed to market.
- A global business unit, Vodafone Global Enterprise, has been established to service the needs of large global business customers.

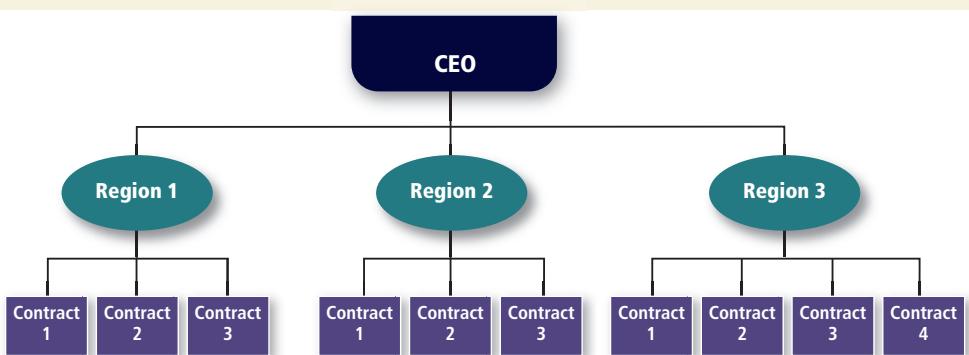
Serco

Serco provides outsourcing services in a variety of business areas that span from refuse collection, criminal justice services, to atomic energy and transport. Prior to 2005, all its customers were governments, and 70% of its work was in the UK. It first grew into additional regions and countries, riding the wave of government privatisation of services. Business units were defined by geography (government customers being bound by geography), and each business unit consisted of multiple contracts, which were the core performance units. More recently, Serco has expanded through acquisitions into private sector outsourcing, as a hedge against too much reliance on government spending. Now about 45% of its business is private, and more than 50% of its headcount is outside the UK.

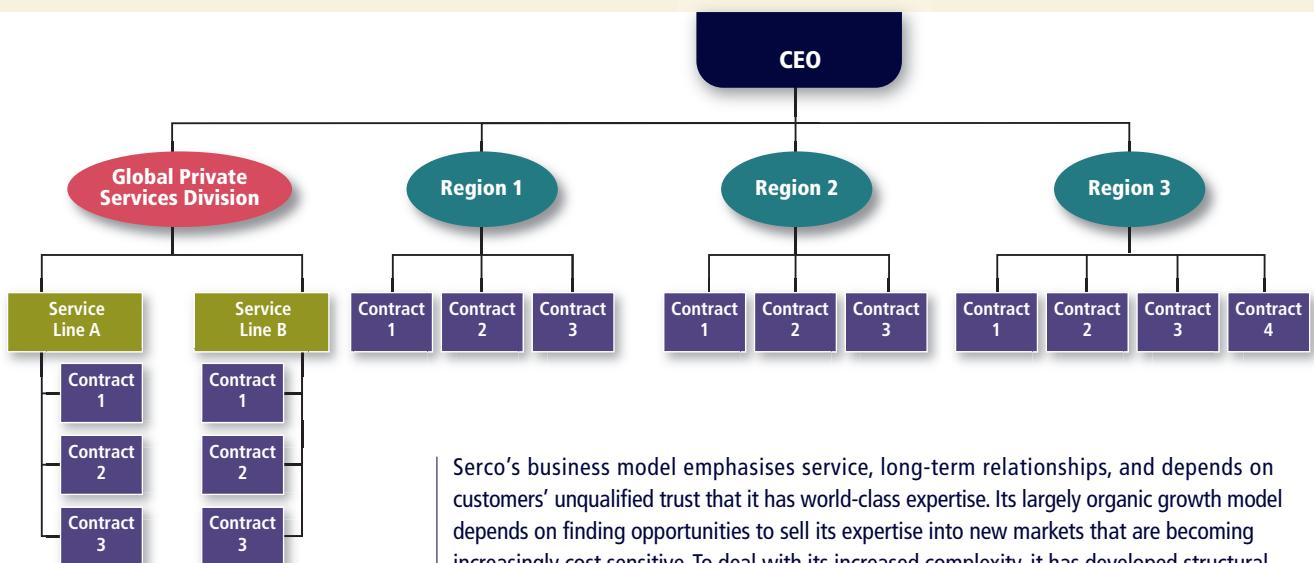
To handle private sector business, Serco has established a Global Services division that works across national boundaries. It houses a variety of BPO solutions, each managed as a global product set. Complexity has increased. It now has varied divisions that might address product, geography or customer dimensions. The two figures below are a notional depiction of adding a new dimension to a geographic organisation.

The company has moved from a collection of local operations providing network services to local customers to a more integrated operation. It is interesting to note that the company first focused primarily on integrating the cost side of the business (technology and supply chain functions) more than on the revenue side, where the company's historical ethos of strong local market ownership still prevails. The latter is beginning to change as key strategic areas of growth, such as enterprise services, will increasingly be managed centrally.

(Simplified) Regional Structure in Outsourcing Firm Providing Services to Government Customers



(Simplified) Structure in Outsourcing Firm Providing Services to Government and Private Sector Customers



Serco's business model emphasises service, long-term relationships, and depends on customers' unqualified trust that it has world-class expertise. Its largely organic growth model depends on finding opportunities to sell its expertise into new markets that are becoming increasingly cost sensitive. To deal with its increased complexity, it has developed structural knowledge coordinating approaches, such as establishing Communities of Practice in key areas. These are focused on the development of consistent business practices and the dissemination of knowledge across its far flung and diverse businesses. The aim is to provide potential customers around the world with confidence that the expertise of the company will be deployed wherever it operates.

"Digital is a very significant question. It's fundamentally changing strategy, products, and relationships with customers. In terms of design, this requires a completely new way of thinking about the organisation." **Kate Sweeney, Partner, Deloitte**

2.3

Convergence

Industries and markets are in a state of flux. Technologies are converging, new competitors are emerging to challenge the accepted ways of doing things, and the boundaries between industries are becoming blurred. Phones are used for banking, paying bills, sending e-mails, consuming news, taking pictures, or buying groceries. TV shows can be accessed through tablets and smartphones. There is a continual sharing of information between devices. Medical services are being delivered via the internet and cars can tell insurance companies how safely you drive.

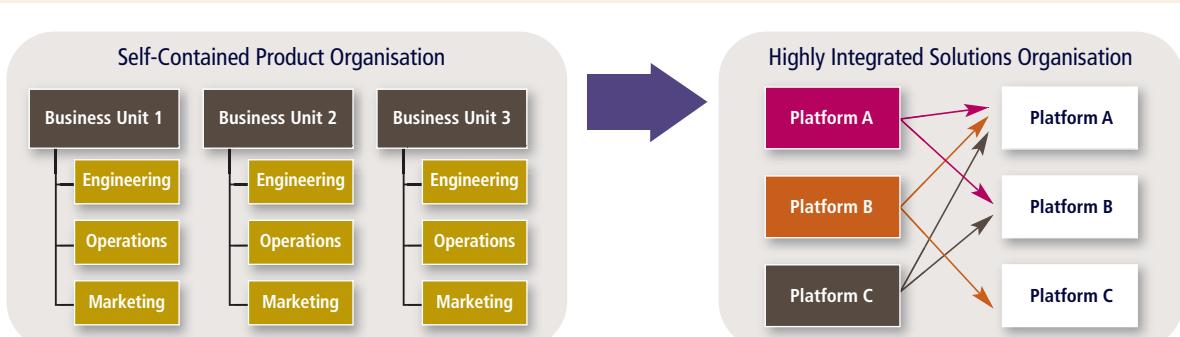
Technology is changing what we can do, how we do it, and what we want and expect. It is fundamentally changing the value proposition of many companies, and how they must organise to deliver it. This is most evident in technology firms themselves.

Technology firms, mostly designed around particular technology and product domains to deliver new capabilities and experiences to customers, have seen the convergence of their businesses as consumers seek interoperable devices and integrated capabilities. Designed originally with strong functional capabilities organised into product units focused on particular market segments, technology companies are entering each others' domains and responding to consumer demand for complete and user-friendly solutions. The distinction between commercial and consumer markets is blurring, as people want to work from home, with the convenience of using the same devices both at home and work. For example:

- Internet retailer Amazon has moved into the manufacture and sale of devices through its Kindle family of e-readers and tablets. This has created synergy with and a whole new channel for its retail book sales.
- Google has gone from a search engine earning its revenue from on-line advertising to creating applications, selling devices, and designing technology for future-oriented systems such as self-driving cars.

This technical convergence is leading to increased need for coordination and integration. It requires synergy and shared direction among previously separate entrepreneurial units, and with diverse partners (see figure below). Nowhere is this more evident than in the recently announced redesign at Microsoft (see below).

The Convergence Transition



"Bringing all the technology development under one unified strategy, as this will do, is a great opportunity to become more agile, to simplify, and remove duplication."

Andrea Winfield, Director, Culture, Talent & Leadership Development, Microsoft UK

Impact of Convergence

Convergence is increasing complexity and driving organisational design changes in many other industries:

Banking

Standard Chartered Bank, Barclays, and others in the retail banking industry have seen basic banking services fundamentally transformed by technological innovations that enable anywhere, anytime self-service. Retail banks were designed around local branches that emphasised relationships and high-touch responsiveness. Now, the amount of information and services at customers' fingertips means visiting a branch is increasingly unnecessary. Although responsiveness to local regulations and culture are still required, unprecedented efficiency savings are possible. In retail banking the machine has become the interface, and service is built into banks' programming and applications. This leads to greater centralisation and service innovation from the centre, with field offices shrinking and becoming an execution arm.

A similar change is happening in commercial (wholesale) banking where rapid and flexible information and analytics – knowledge - is becoming a greater part of the value proposition than relational or transactional support. This part of the business resembles a professional services firm, where knowledge and expertise are sold, often to global clients. The design challenge is how to assemble expert teams to develop innovative solutions for clients, moving the emphasis away from geography or function towards global product lines.

Microsoft

Microsoft has found itself in the enviable position of having products in most areas of the rapidly converging information technology world, and in a broad breadth of diverse markets. At core a software company, it has partnered with or acquired hardware and device capability, and created a rich eco-system of application developers, in addition to its core software business. Yet, as consumers and, more slowly, commercial customers move away from the personal computer to other devices, Microsoft has struggled to develop new areas of leadership. It finds it challenging to make money in some areas where others are thriving.

Microsoft was historically structured as eight fiercely independent product organisations (pictured in press cartoons as pyramids pointing rifles at one another). Each developed its own local strategy and much of its own technology with the goal of entrepreneurial innovation. Presence, influence, and autonomy in the country field organisations were jealously guarded. The costs of this way of operating - redundancy and, often, lack of true inter-operability – were readily absorbed by a company with a huge embedded PC oriented business base with wide margins. But with PC sales around the world falling, the new generation of PC oriented operating systems and office applications are not meeting their targets. Microsoft's mobility, cloud, device and entertainment businesses are not growing fast enough to compensate.

Microsoft knows that to succeed in these new areas, it has to achieve leverage and synergy- perhaps more because of the market demand for full solutions and inter-operability than for resource efficiency. It has dissolved the eight product divisions and is moving to four platform oriented units focused on operating systems, devices, applications, and mobility. The objective is to concentrate technology development that was previously spread across the product divisions.

Structural change will not be sufficient. Achieving leverage and more integrated technology will depend on making changes in all the other aspects of the STAR model – in management processes, rewards, and perhaps most important of all, in designing the talent systems that convey employee expectations, define roles, and develop the necessary leadership capabilities. Whether increased customer interest in its products and solutions is achieved will depend on how these four platform divisions link to each other and to customers. There is still a great deal of design work to be done to adjust to the increased complexity of technological convergence and changing customer expectations.

(Source: Wingfield, 2013)

"The emphasis within the organisation is moving towards global business lines with countries sharing resources." **Jonathan Lawrence, Group Vice President – Human Resources, Intertek**

2.4

Emerging Designs for Complexity

Corporate design decisions no longer simply address what are the core hierarchical units in the company and how performance is managed. Over the past decades, we have seen the emergence of new forms of organisation (described in Chapter 1), such as network organisations, front-back organisations, ambidextrous organisations, and joint ventures. They help address the increased complexity of dimensions that must be managed. Many more design choices and approaches are required to handle today's complexity.

2.5

Coordinating in the Face of Complexity – Making the Dimensions Work

Corporate design decisions no longer simply address what are the core hierarchical units in the company and how performance is managed. Over the past decades, we have seen the emergence of new forms of organisation.

As the complexity of doing business on a global scale requires large firms to organise along multiple dimensions, core structure alone is insufficient to ensure effective performance. Large companies are becoming more difficult to manage. Traditional top-down forms of management are unable to keep pace with the speed of change. This is where the **lateral structures and processes** described in Chapter 1 come into play. They:

- complement the formal structure and ensure work is coordinated across the different dimensions of the organisation, and across activities that are located in different organisational units;
- decentralise decisions about businesses and functions and increase the organisation's capacity to make more decisions more often and about more issues. The organisation can then respond to more dimensions in its environment; and
- result in 'faster, and often better decisions by placing decision making in the hands of people with direct customer and product contact.'(Galbraith, 2000)

One of the considerations of organisation design is therefore to determine what lateral coordination is necessary for effective implementation of the business strategy, and to deal with the complexity of the organisation. In some cases these arise informally, but often they need to be designed and supported. As described in Chapter 1, research shows that these lateral structures are most effective if carefully designed, and if they have clear purpose, deliverables, accountability and measures.

Impact of Convergence (continued)

Intertek is a FTSE 100 company providing product inspection, testing and certification services to companies across the globe. For example, it is the largest tester of consumer goods globally, with a network of over 1000 laboratories. Its market space affords immense opportunities for growth. The company grows through entrepreneurial behaviour from within that increases geographic presence and spots opportunities to enter new business areas. Historically the organisation was a highly decentralised network of businesses, with the emphasis on developing opportunities within a framework of common principles and identity, rather than being highly structured and prescriptive.

The environment has changed to one of global supply chains, industry convergence, rapid advancement of product and process technologies and shifting consumer expectations of quality. For example, new forms of textile fibres and packaging require testing for carcinogens; and consumers need assurance about the safety and provenance of the food they eat.

The emerging design requires:

- mechanisms for the rapid dissemination and advancing of knowledge; and
- processes to be leveraged among Intertek's scientists and technicians around the world.

In response, Intertek's organisation design has moved towards more tightly defined global business lines with responsibility for growth, profitability, and penetration. The business model depends on customer-focused service, with the vast majority of employees focused on rapid response to particular customers, often physically located at the customer's site. The company is carefully balancing the need for local self-regulation with the need to leverage knowledge, manage global product lines, and build a well-respected global brand.

"Coordination mechanisms are the means by which power is shifted among the various dimensions of an organisation." **Jay Galbraith, Designing the Global Corporation**

Drug Discovery Teams

In 2007, GSK introduced a new organisation model within the R&D function. It moved from a highly-centralised, hierarchical, discipline based form to smaller cross-discipline, accountable Drug Performance Units (DPUs). The purpose of moving to the new structure was to improve the pipeline of drugs being discovered and to increase return on investment in R&D spend.

- Each DPU is responsible for developing medicines in particular therapeutic areas. Their business plans are the basis for allocating the company's investment funding.
- Less successful ones may become smaller or may result in GSK exiting a specific therapeutic area.
- A typical DPU might have 60-70 staff, significantly smaller than the huge cross functional teams that existed under the old structure that had broad focus but little accountability. The idea is that GSK operates more like a collection of small entrepreneurial biotech businesses rather than a corporate giant.
- In some cases, DPU scientists manage partnerships with third parties who develop medicines, thereby accessing new areas of science, speeding development, and sharing risks with partners.

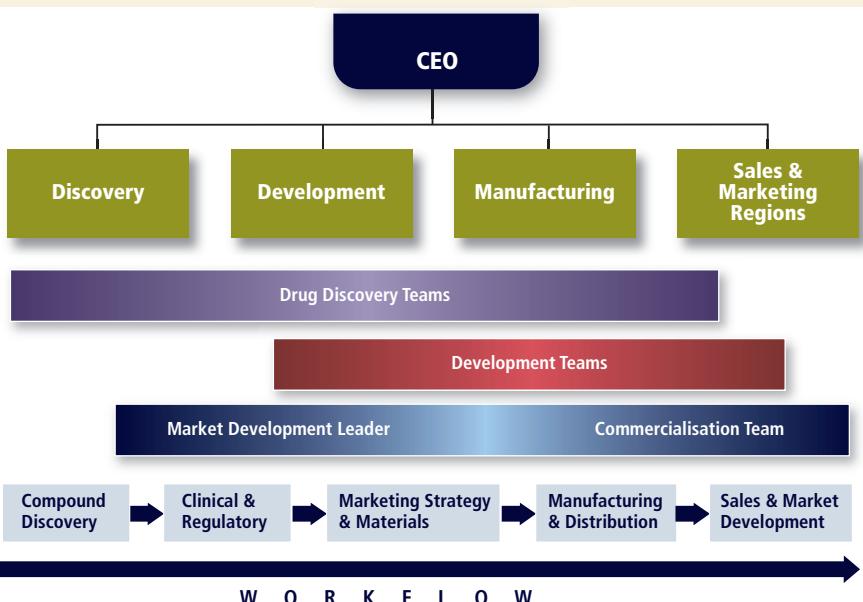
The new structure has delivered a higher return on R&D investment and a growing pipeline of new medicines.

Case Study

GSK – Working Laterally

For GlaxoSmithKline (GSK), in common with other pharmaceutical companies, product discovery and development is driven by a central R&D function. Recently, drug companies have struggled with the increasing cost of drug discovery and development and the difficulty discovering drugs that are measurably better than existing drugs. For many companies, pipelines have dwindled and drug discovery processes often meander through many functional groups, often without a clear strategy. Scientists and managers from many units participate in a process that often lacks clear criteria and milestones. The drug development process, including the many trials that have to be conducted with patients from around the world, is an extremely complex process. It depends on coordination with doctors, patients and regulatory agencies. The drug pipeline is the engine for pharmaceutical firms, so designing the organisation around this critical process is a priority. The columns describe new structures GSK has established to tackle this.

Lateral Mechanisms in Large Pharma (Generic)



Managing the drug lifecycle inevitably is expensive and requires coordination across deep organisational specialisms in a process with highly uncertain outcomes. Given the cost in today's world, pharmaceutical companies need to commercialise efficacious drugs as soon as they are approved, and in multiple markets, to recoup the cost of discovery and development. Additionally, developing new therapies that are accepted by physicians and health systems entails connections to multiple therapeutic communities of medical practice and purchasers.

The system of empowered, accountable, and focused teams GSK has put in place enables it to effectively carry out core strategic processes that require integration across many dimensions – scientific disciplines, functions, geography, and medical therapeutic areas. In a real sense, the company has restructured in acknowledgement that its core work is done laterally. Again, structure is only one element of this redesign. Management processes and rewards have been revamped. Interfaces are or will have to be reconfigured, and the workforce will have to develop new skills and a broader understanding of the system in order to work effectively in the new design.

2.6

Key Tensions in a Multi-Dimensional Organisation

Organisation design decisions are trade-offs. Yet increasingly organisations cannot afford to trade-off one dimension in order to optimise another. They are designing multiple forms of business units and a myriad of lateral designs that connect and coordinate between dimensions with different priorities. In a complex organisation, conflict is inevitable, and managers and employees will continually be asked to collaborate in weighing multiple dimensions.

Managing multiple dimensions is fraught with tensions and contradictions. The task for organisations, therefore, is not to choose one solution over another. It is to find ways to manage the tensions and contradictions inherent in complexity – and to find the right mixture and balance of control by and across dimensions that supports the key strategic requirements of the company.

In this chapter we have explored how organisations are being designed to address the changes in strategy required to deal with increasing dimensions of complexity in their market and industry environments. We have focused on examples of how companies are reconfiguring the ‘operating organisation’, i.e. the core processes that deliver value to customers. Clearly changes in strategy and in the configuration of the operating aspects of the organisation will trigger many other changes in the design of the company – such as the way functions are designed, performance is managed, and people are developed.

In the following chapters, we consider some of the main tensions and challenges organisations face as they evolve their designs to deal with this inherent complexity. These include:

- The degree to which organisations seek to optimise the system by achieving leverage across geography or functions, or by centralising operations versus optimising the components of the system by focusing activities within particular areas or decentralising.
- How to achieve effective governance through both formal and informal means.
- Managing knowledge in a complex organisation.
- Balancing core operations and organising for agility and innovation.

Drug Discovery Teams (continued)

Medicine Development Leaders

The development and commercialisation processes bring in many other functions and disciplines across the corporation. GSK established a senior integrative management role, the Medicine Development Leader (MDL). They are positioned within R&D, but responsible for pulling together and leading contributors from across the organisation to carry out the lifecycle of a product. Each medicine is assigned an MDL in the early stages of development.

Commercialisation Boards

Building on the success of the new model, GSK is currently redesigning how new medicines ('Franchise' products) are commercialised globally. Previously, regional business units decided when and where new products would be launched, often giving preference to existing drugs that were doing well in their regions. GSK decided to build a global commercialisation process with the objective of identifying markets globally that would allow the best access for patients. It has set up global 'Franchise Boards' responsible for identifying these high potential markets where the drug will first be commercialised. The Boards create the global strategy, set targets and priorities for launch, and provide support and interface with the local markets.

The Franchise Boards include country General Managers in the chosen markets, who sit on the Franchise Boards and are held jointly accountable for successful launch. These GMs are responsible both for optimising their local P&L, and the success of new products GSK-wide, requiring trade-offs to balance the benefit for the company as a whole against individual country interests. To support the Franchise Boards, GSK has set up a lean global centre of excellence for marketing, which replaced the previous regional marketing centres, saving money.

THE CORE TENSION: BALANCING THE SYSTEM
AND ITS COMPONENTS

3

THE CORE TENSION: BALANCING THE SYSTEM AND ITS COMPONENTS

Topics covered	Introduction
3.1 A Dynamic Challenge	38
3.2 Self-contained vs. Leveraged Units	39
3.3 Designing Functions	41
3.4 Role of the Centre	44
3.5 Changing Images of the Centre	46
	In this chapter, we consider the choices organisations face between achieving efficiency by leveraging globally and maintaining local focus and responsiveness. We also explore the implications for the corporate centre and specialist support functions.

"A matrix organisation purposefully creates healthy tension. It's part of the way we work. Being international and collaborative, we accept that it is rare for individuals to make a big decision on their own." Tracy Clarke, Group Head of Human Resources and Communications, Standard Chartered Bank

Case Notes

Associated British Foods (ABF), a diversified international food, ingredients and retail group, operates a portfolio of businesses with a strong philosophy – established by the founders - of light-touch management from the centre. The group is structured as largely self-contained businesses, designed to optimise performance in each business area. The powers reserved to the centre – focused on financial and capital management, legal agreements and senior appointments – are defined in a 'Red Book'. Business performance is largely managed by monitoring P&L and balance sheet. In many ways, the company has chosen to delegate complexity of organisation design to individual businesses. Each business develops internationally and integrates in different ways, dependent on the unique requirements of its markets. However, as the number and complexity of markets in which the group operates continues to grow, there is an increasing need for leverage at corporate level, in areas such as procurement, innovation and talent management. The group tends to take a 'networking' based approach to coordination, rather than adopting formal structures to connect people from different businesses, which is consistent with the corporate philosophy (see Chapter 5).

AB Sugar, one of ABF's largely self-contained business units, faces the tensions outlined in this chapter as it organises its geographic business units. Growth through acquisition led to developing positions in diverse country markets. The adoption of a strategy to be the world's leading sugar business has required a balance of building on the distinguished history of each business, while creating linkages across units. The linkages developed are largely in the areas of encouraging improved performance across units, and knowledge sharing (see Chapter 5). Quintin Heath, AB Sugar's HR Director, summarises it thus: 'we try not to leave any money on the table, but where we must choose between performance and synergy money, we choose performance.'

3.1

A Dynamic Challenge

Along with issues of dealing with multiple dimensions comes the need to find the right balance between organising so that each business unit can optimise itself in its local environment and organising to optimise the overall organisational system.

- Optimising individual businesses requires them to have sufficient resource control and autonomy to determine and flexibly implement their strategies.
- Optimising the system requires resource leverage and cross-business coordination.
- Getting this balance right is the key challenge facing organisations today.

This tension is faced whether designing the corporation with its multiple businesses, or one of the businesses within the corporation, with multiple sub-units that may be defined by product line, customer set, or geography.

As with all design decisions, there is no one approach that is correct for all organisations nor for any organisation through time. The appropriate balance depends on how related the businesses are to one another, particularly with regard to:

- Strategy and whether the organisation intends to deliver valued outputs to customers and other stakeholders in a manner that requires integration across the businesses.
- The nature of the resources required to operate effectively and the extent to which they are common or differentiated across businesses.

The balance also is often rooted in shared beliefs and values with respect to autonomy and collaboration – often determined by the company founders.

Complex organisation designs that are predicated on coordinating many moving parts, often with conflicting priorities, may be easy to draw on paper but are very difficult to implement. Organisations that adopt increasingly complex strategies and business models face a fundamental question: how much time and effort to spend in coordination, and where to forego benefits of scale and synergy in favour of operational flexibility and entrepreneurial behaviour.

Two inter-related sets of design decisions define the balance of optimising the system and optimising its components:

- 1) How is the system designed to operate in order to carry out the strategy effectively? Are the units interdependent in delivering products and services to their customers?
- 2) How is the organisation governed?

In this chapter we deal with the first question and in the next chapter we talk about governance.

3.2

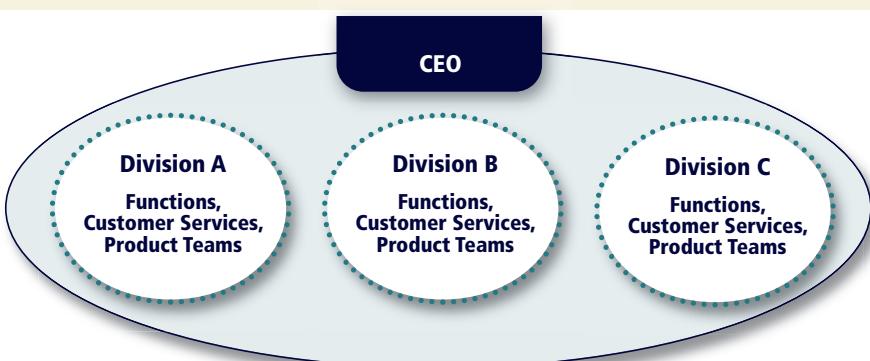
Self-contained vs. Leveraged Units

There are two extremes in the positioning of an organisation along a continuum from self-contained business units to a highly integrated organisation where resources are leveraged and processes are connected across businesses (illustrated by the two figures below). In practice, most organisations position themselves somewhere in the middle and surgically decide what to connect and where to allow units to operate relatively independently.

Self Contained Divisions



Group as System to be Optimised



Case Notes (continued)

One of Vodafone's core beliefs is that strong country organisations are the source of revenue and profitability. While maintaining this philosophy, Vodafone has been on a ten-year, continuing journey to determine where business benefit is attained by adopting company-wide approaches. The drivers for this include:

- Intense cost competition in the industry.
- New service capabilities requiring advanced technology and integrated networks, which are developed centrally and deployed locally.
- Opportunities for cost benefits through a global supply chain.
- Services offered to global customers requiring global coordination.

The local business units still manage the interface with local markets, ensuring fit with local customs and regulations, managing relationships with customers, and determining local business plans. Increasingly, however, they are operating as the execution arm of a much more integrated global system.

Unilever has similarly been on a transformational journey that started with strong, autonomous country organisations with many local brands and products. Guided by a strategic emphasis on developing and leveraging strong global brands and a globally integrated supply chain, it has rationalised the portfolio of products and brands, reduced the number of corporate, regional and country roles, and simplified the organisation structure and business processes.

"The downside of a complex matrix is that decision making can feel slow and clunky at country level. We are working on simplifying the organisation, but in a complex global business, you can only simplify so far." **Jonathan Cormack, Group Head of Organisation Effectiveness, Standard Chartered Bank**

Case Notes

In banks such as **Barclays** and **Standard Chartered**, retail banking services are increasingly embedded in centrally developed technology that defines new automated and virtual services for customers and provides unprecedented levels of efficiency in service delivery. There is less need for large local service offices, and the flexibility of country organisations is constrained and their role changed to execution. Yet local approaches are critical in certain areas where interfaces with local regulations, customs, and customers are key. An example is Sharia banking, where Standard Chartered has a growing presence, and local insight is crucial.

Providing aggregated, up-to-date information is a critical enabler of many knowledge-intensive industries. The creation of **Thomson Reuters** through the merger of two information businesses in 2008 set the stage for restructuring the combined businesses into customer-focused business units. The new structure moved from a complex product/customer/user matrix to five business units focused on specific customer/ content areas such as Financial & Risk, Legal, and Tax and Accounting. Although some units sell their products and services to the same companies, the purchasing decision makers, end users and content are different. Legal content is purchased by legal departments, Tax & Accounting by finance functions, and so forth. There is therefore little opportunity to leverage content between businesses. However, a common success factor is the advancing of IT systems, including 'big data' capabilities, visualisation, and other applications that allow for competition on service and customer interface as well as content. This is an area where it is strategically important to share innovation and development across business units.

The table below summarises the advantages and disadvantages of each approach.

	Advantages	Disadvantages
Self-contained Businesses	<ul style="list-style-type: none"> Can be given the freedom to craft and pursue a strategy. Can be held accountable for outcomes. Within their charter, can be fleet and agile. Leaders and teams tend to be highly motivated because they feel that they are running their own businesses. 	<ul style="list-style-type: none"> External identity and stakeholder management are fragmented. Difficult to leverage resources or achieve coordinated action and market impact. Difficult to achieve system-wise process efficiency and cost effectiveness.
Integrating to Achieve Leverage and Synergy	<ul style="list-style-type: none"> Resource leverage. Coordinated management of external identity and external stakeholders. Integration and collaboration across business units and across the dimensions of the organisation. 	<ul style="list-style-type: none"> Cost of developing and maintaining common systems. Cost of employee hours that are dedicated to coordination. Confusion and decision-making delays from navigating the complexity.

Although an integrated organisation can achieve efficiency through common processes, reducing redundancy, and sharing and leveraging knowledge, coordination also consumes resources. The greater the number of lateral integrating approaches, the greater the amount of time spent coordinating work rather than doing it. Managing lateral interdependencies effectively is a critical organisational capability in today's world.

The second figure on the previous page shows that lateral integration can be experienced as 'perforating' the boundaries of a business unit – i.e., creating areas where the unit does not have autonomy to optimise its own performance. Motivation can be negatively affected if managers and employees feel they are 'spending too much time in meetings', 'feeding the bureaucracy', or constrained to operate in a way that prevents outcomes they believe to be in the company's or their customers' interests.

Excessive time required for decision-making and coordination in a complex organisation may be a reason the organisation is not fleet and agile. For this reason, the balance between allowing self-containment and optimising the subunits, and pushing for greater integration should be driven by an analysis of where the company derives real value.

- Which interfaces and areas of coordination are most critical to the strategy of the firm and to the customers and other stakeholders?
- In what areas will common processes and shared resources prevent expensive redundancy, and free up resources for innovation, growth, and enhanced delivery of valued services and products?
- What areas of coordination allow business units to be more effective?

As organisations move through transitions of strategy and organisation, they seek the right balance of self-containment and leverage. This also entails finding the right balance between complexity and simplification. Global businesses have to develop the capacity to manage multiple dimensions. At the same time, excess complexity can damage relationships with customers and inhibit performance. Standard Chartered actively monitors how the matrix is evolving, to check the right balance is achieved. If front-line decisions are caught up in the complexity of the matrix, the bank considers it has moved the complexity too deep into the organisation, and this needs to be addressed.

Case Notes

The tension between local desires for customisation and global advantages of coordinating is strongly evident in consumer products firms such as Procter & Gamble (P&G), which manages a large portfolio of global brands in the areas of beauty, grooming and household care. During the 1990's, to capitalise on its large brands, the company transformed from self-contained geography-based business units - controlling their own product portfolios, marketing and sales - to a much more integrated design. Its new front-back structure consisted of two kinds of units:

- Large brand-defined Global Business Units with product, market penetration, and profit responsibility.
- Customer facing, geographically defined Market Development Organisations with responsibility for revenue.

These units were supported by a full range of functional groups.

In the early 2000's, it became evident that the company had to increase leverage in its functional areas to free up resources to fund innovation. P&G did this in part by centralising its Global Support Businesses – functions such as IT, HR and Finance - and charging them with increasing operational cost effectiveness. The functions did this largely by defining and implementing common processes, in many cases in conjunction with aggressive outsourcing of transactional costs. This occurred simultaneously with the establishment of central reporting of R&D and the Supply Chain, enabling global integration, rapid adoption of innovative practices, and coordination of the commercialisation of new products across the globe.

(Source: Piskorski et al, 2007)

3.3 Designing Functions

Nowhere is the tension between optimising the system and optimising its businesses felt more strongly than in the design of functions. An important question is how to organise for functional excellence when the functions are an integral part of multiple business units, distributed around the world.

Functions should be designed to fit the strategy and operating model of the company, so that they provide value and support to help the business succeed. There is a tension between aligning functions with business units to give businesses more control over the functional issues that are critical to their success, as opposed to centralising functions to derive economies of scale and commonality of approaches to ease coordination across the corporation and advance company-wide practice.

Lawler and Mohrman have advocated functions thinking of themselves as suppliers of three kinds of service to the business:

"The need to drive cost efficiencies on a global basis is really biting. This is pushing us towards stronger global functions." **Matt Nixon, Global Head of Talent, Barclays**

1) Efficient and responsive transactional services carried out through common processes and service agreements. This work is increasingly IT-enabled, provided virtually and through standard processes and interfaces. Globally integrated procurement and supply chain systems, for example, are established to ensure that businesses have the materials and products at required levels of quality, cost and timeliness. Transactional support activities may include payroll services, IT infrastructure provision, travel reimbursements, financial records and reporting, training, and employee services.

2) Business effectiveness services that enable the businesses to operate effectively. This includes identifying areas of improvement, such as building more effective interfaces and/or work processes to achieve business goals and strategies. Introducing dynamic outsourcing systems and flexible globally integrated supply chains that enable businesses to rapidly scale up or down, or making improvements to forecasting and strategising capabilities are examples. Services are often delivered through Centres of Excellence, in which deep knowledge is housed and made available to support initiatives and projects in the corporation and its business units. Examples include: talent management support, modelling and analytics, and introducing IT approaches to increase employee productivity.

3) Strategic partnering with the corporation and its businesses to identify ways the function can enable and help shape capabilities that enable new strategic directions. Currently, for example, IT functions are helping craft corporations' approaches to incorporating big data capabilities into company strategies, such as for more personalised product offerings, richer data-based knowledge offerings to customers, more targeted customer segmentation strategies, and rapid dynamic response to trends. HR functions can use environmental scanning and employee demographic data to identify future staff shortages and changing demographic profiles, allowing for long-term planning, training and development.

Source: Adapted from Lawler and Mohrman, 2003

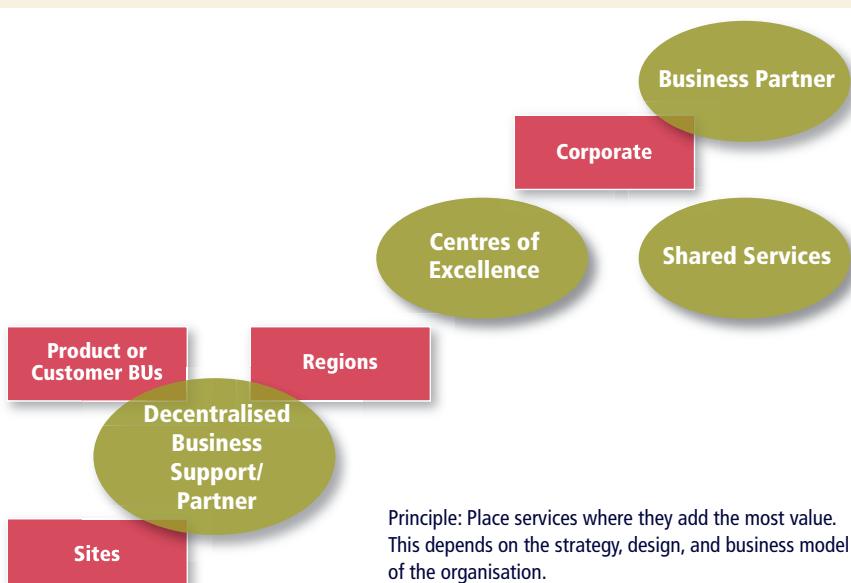
The trend is to see functions as the enablers of strategy. This includes making substantive contributions to strategy formulation, by advancing the functional enablers of business effectiveness, and through aggressive management of the cost-effectiveness of transactional activities.

A prototypical functional design can be seen in the figure below. It shows:

- **Business Partners.** Provide business strategic and operational effectiveness support at either corporate or business unit levels. Functional leaders are members of business teams.
- **Shared Services.** Designed for corporate-wide efficiency, delivering cost-effective transactional services and advancing capabilities to provide transactional services.
- **Centres of Excellence.** Designed for knowledge, housing deep expertise, they catalyse the application and advancement of knowledge throughout the firm.

Depending on the strategy and configuration of operational and strategic activities, companies vary in the functional activities that are centralised and decentralised – thereby creating a balance between optimising corporate performance through building strong and relatively independent local businesses and orchestrating the system through activities that cut across the whole company.

Designing Functions



"We thought really hard about what the role of the centre should be. The areas where the centre is focused are ones which give us a competitive edge." **John Whelan, HR Director, Programmes and Support, BAE Systems**

How Parents Create Value

An alternative view of the role of the corporate centre is described by Michael Goold and Andrew Campbell of Ashridge Strategic Management Centre, who have developed five 'parenting propositions' that describe the ways in which the parent can add value to the rest of the organisation:

- **Select propositions:** create value by acquiring units or people for less than they are worth or disposing of activities for more than they are worth.
- **Build propositions:** help units expand their size and scope of activity, for example by helping with globalisation or product extensions.
- **Stretch propositions:** help reduce cost or improve quality or profitability by, for instance, setting stretching targets or providing benchmarks.
- **Link propositions:** help units work together in ways they would find difficult if left to themselves.
- **Leverage propositions:** find ways to exploit a central resource, such as a brand, a relationship or a patent, in new markets or businesses.

Source: Goold and Campbell, 2002

3.4

Role of the Centre

A key organisation design consideration is the role of the corporate centre, how it adds value in the organisation, and how it interacts with different parts of the business.

One critical way the centre adds value is by setting corporate strategy and designing the organisation to operate effectively in carrying out the strategy. The corporate strategy provides an umbrella framework, defining the elements of the business portfolio and how they relate to one another in achieving market success.

As the company adjusts to changing market demands and opportunities, and juggles different dimensions, the centre determines where the design should fall along the continuum between self-containment and integration. Key considerations include:

- What are the core units of the company?
- Which will be self-contained and allowed to regulate themselves?
- Which units will operate with more complex internal and external interfaces and collaboration in order to achieve leverage, integration and systems capability, and along what dimensions?

In this complex landscape, the centre can add value through the following activities that enable the performance of the corporation to be optimised:

- determining the values, mission, shared focuses and performance system of the organisation;
- determining the strategy and portfolio of businesses and the distribution of capital, investments and resources required to foster overall strategic success;
- monitoring and mitigating risk that stems from diverse and distributed sources throughout the company;
- building company wide brand and reputation;
- ensuring leverage of key corporate resources such as technology and talent;
- leveraging resources by carrying out some work centrally, such as through central shared services and centres of excellence;
- providing a framework for integration and coordination across dimensions through common processes and/or through the design of interfaces; and
- managing institutional and corporate external relationships.

"The centre's role is to make sure there's a rigorous process for moving talent around the business and that individuals get the right opportunities. We put pressure on the businesses to open the doors to develop international careers." **Quintin Heath, HR Director, AB Sugar**

The following themes emerged particularly strongly among the companies we spoke to, and point to the increased complexity they are dealing with:

- **Talent Management.** The centre is well placed to identify key talent and high potential staff in different business units and to act as a broker. It creates linkages that individual business units would otherwise be unable to do. This is true in Associated British Foods, which operates a light-touch corporate centre that acts as holding company for a set of relatively self-contained businesses. Des Pullen, Group HR Director, sees the centre as having a key role in getting to know and coordinate key talent in far-flung business units. He likens the role of the centre to being a 'dating agency'.
- **Risk:** A number of organisations reported that the role of the corporate centre is changing in line with the organisation's risk profile. Government pressures, regulatory constraints, social unrest, terrorism, and other sources of potential economic and social upheaval have heightened the difficulty and importance of managing risk. The recent financial crisis has led to many firms beefing up their risk management frameworks and compliance and control functions, at both business unit and corporate levels. Standard Chartered is one example that is discussed in the column on the next page.
- **Brand:** As organisations develop global markets and operate in an increasingly integrated fashion across the globe, brand reputation is a powerful determinant of market and talent access. It can be a key element of integrated global strength. Unilever and Procter and Gamble, have gradually restructured to foster both the visibility of the corporate brand as well as to grow based on the strength of powerful global product brands. Brand reputation is also an element of Intertek's strategy. It relies on customer trust in its increasingly connected global product security and integrity business. In today's world of rapid global information sharing, lapses in product or business integrity anywhere in the world can threaten the strength of a brand globally.
- **Technology.** Technology is moving from a back-office function to being an essential element of the core business for many firms. It enables new products and services, new delivery mechanisms, and new ways of reaching customers. Big data capabilities facilitate speed and precision in detecting consumer responses and behaviour patterns, and segmenting customer populations. Barclays has recently appointed a new Chief Operations and Technology Officer to the global executive committee. As well as driving cost efficiencies, this role has an important mandate to develop innovative customer propositions in areas such as mobile banking.

Case Notes

Vodafone's journey to rationalise the organisation has involved a gradual reshaping of the role of the centre, moving beyond its original focus on traditional areas of strategy, policy and governance and managing the performance of its largely self-contained local business units. The executive team began by developing a global Vodafone Brand. In 2007 it began a gradual transition in its organisation design to derive the benefits of global integration. Function by function, the company has determined where benefits can be gained from centralisation and where greatest value is achieved by being close to the customer.

- The journey began with supply chain where corporate buying power provided significant advantage. To make this successful more technology standardisation was needed so consequently the technology organisation was centralised.
- More recently and continuing the focus on costs, shared services were implemented in HR and Finance.
- Now the company is moving towards centralised customer operations and products and services development – areas of investment to generate and broadly disseminate new capabilities and innovative approaches to give Vodafone a commercial advantage.
- To better support these changes, Vodafone has developed a common culture 'The Vodafone Way.'

"A marker of how important technology is as a driver of innovation for our business is the creation of a new Head of Operations and Technology at ExCo level. This will help us optimise our technology footprint and drive idea sharing across different business groups. Technology is about so much more than the back office now." **Matt Nixon, Global Head of Talent, Barclays**

Case Notes (continued)

Vodafone is now heavily matrixed. In each area the company surgically determines what areas (such as technology) should report solid-line to the centre, and what areas should continue to report to the CEO's in the market. Local market management teams now are composed of some members who report to the centre and dot to the market CEO and others who are the opposite, depending on whether the greatest advantage derived from that function is from integration or from the flexibility of being close to the market.

Standard Chartered finds that several business trends are affecting the split of responsibilities between corporate centre and business units. A changing risk profile and regulatory pressures have meant increased focus on risk management. The bank operates a devolved risk management framework, with policies developed by the centre and executed in local markets. However, the ability to control risks is paramount for the group. As a result, the bank has developed independent global functions whose remit is to protect the integrity of the control role. In addition, some aspects of global functions are designed to drive productivity. The bank has three distributed operational shared services hubs that process transactions and deliver services to employees around the globe. The need to improve profitability has also led to the consumer banking business becoming more standardised across markets. In contrast, there are local market pressures, such as the Sharia banking business in the Middle East, which requires a more geographically focused lens on the business.

3.5

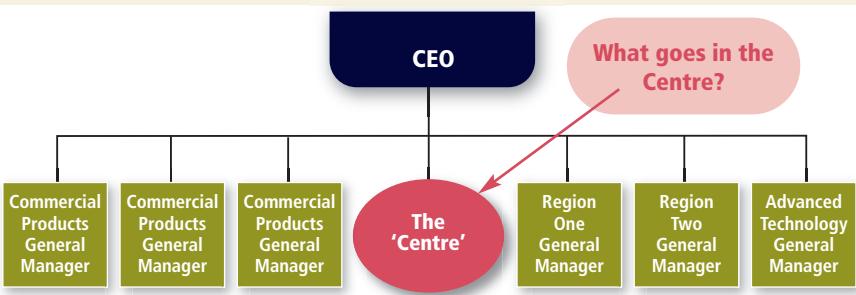
Changing Images of the Centre

Returning to the theme that complexity is driving new organisational design approaches, we find that many organisations house different types of business units, often with different business models:

- Both Serco and Intertek have units that service local governments and others that are global service lines.
- Barclays and Standard Chartered have retail and wholesale banking units.
- Associated British Foods has five segments with different business models: sugar, agriculture, retail, grocery, and ingredients.

The centre is challenged to define its role in a manner that fits this variety of units (see Figure).

Generic Divisional Structure



Variety in design is also evident in the tailoring of different functions to service a global business based on the ways in which they add value. Standard Chartered has established SC Studios - a 'venture unit' largely free from the normal business constraints and processes of the Bank. It can be nimble in identifying and generating new technology and operating approaches that can be introduced into the core businesses in the bank. (described in Chapter 6). In many organisations functional transactional support now aligns with geographical regions, rather than being automatically aligned with global business units. Procter and Gamble now has five innovation centres on five continents. This is part of the global R&D organisation which services two large global business units and many global brands, and seeks breakthrough innovations to extend the business.

Housing different kinds of business units and functional units organised with differing concepts and configurations is challenging, first in terms of governance and developing systems and processes to manage the different units, and second in terms of the complexity of interfaces. Variation in business models and structural designs across various functions means that the role of the centre and the balance of focus on system optimisation versus business unit optimisation are extremely important design decisions. It is a continual tension in the organisation.

"Organisations need to be globally integrated, but that doesn't mean centralised. Today, there is often no one 'centre' driving policies, and the idea of a 'headquarters' located in a single location is becoming outdated." **Dimple Agarwal, Partner, Deloitte**

Even for corporations with relatively similar businesses, as organisations become more complex, managing linkages from the centre becomes more difficult. As businesses grow in new markets, it is more difficult for the centre to track and understand the capabilities it possesses in far-flung locations. It is also hard to make decisions that take into account the unique needs of different parts of the organisation. The world is moving so fast that orderly, centre-directed processes no longer provide the agility required to compete in many industries.

In Chapter 2, we described the notion of a truly globalised organisation with business leadership coming from subsidiaries around the world. We also described new forms of organisation that are emerging, including network organisations. These trends push towards a new image of coordination and integration – away from seeing the centre as the source of all direction and integration, and toward seeing parts of the system acting fluidly in relationship to one another.

Perceptions of the corporate centre as a physical entity are also changing. Headquarters are becoming globally distributed, reflecting the geographical spread of multinational businesses. Standard Chartered organises its global functions around three hubs. Increasingly companies want their key executives to be based in or near their critical markets. HSBC's British chief executive is now officially based in Hong Kong. It is becoming common for a corporation to locate the headquarters for different businesses where there is the most advanced knowledge or competitive pressure.

The concept of the traditional corporate centre in the sense of a building in the organisation's country of origin is becoming a thing of the past. The corporate centre is now more of an idea than a physical reality. It may consist of numerous global teams based at different locations across the globe, or even working virtually.

As global organisations operating in an increasingly complex environment develop ever more complex organisation structures, the formal hierarchy is incapable of dealing with the intricate network of relationships that is necessary for today's multinational organisation to function effectively. Integration is not equivalent to being centrally managed. Increasingly, work is done and integrated through lateral networks and processes that do not appear on the organisation chart.

The complexity of managing large businesses today means that formal structures and hierarchies – although still important and useful – are incapable of addressing all the needs of the organisation. What does this mean for governance of the system? In the next chapter we consider both formal and informal processes and mechanisms of governance.

BEYOND HIERARCHY - GOVERNING A COMPLEX ORGANISATIONAL SYSTEM



BEYOND HIERARCHY - GOVERNING A COMPLEX ORGANISATIONAL SYSTEM

Topics covered	Introduction
4.1 Elements of Governance 52	In this chapter we explore the definition and role of governance in today's organisation. We also describe the combination of 'hard' and 'soft' approaches to governance being adopted by large, complex organisations.
4.2 'Hard' Approaches to Governing across Dimensions in a Complex System 52	
4.3 'Soft' Approaches to Governing across Dimensions in a Complex System 55	

'Executives are busy controlling through the hierarchy, and others are busy trying to get things done that require work across the hierarchy.'

Governance Issues in the Lateral Organisation

Critical issues in the lateral organisation include:

- Who sets goals for lateral structures and processes?
- Do the members have common goals?
- Who gives operational direction?
- Where do the participants report?
- Who assesses their work and determines their rewards?
- What authority do lateral leaders have regarding the hierarchical chains of command?
- How do participants work out conflicting priorities and preferences?

These questions arise because individuals get direction from multiple sources across different dimensions. Often companies do not realign power as they become more complex. Power remains in the core hierarchical units of the organisation, and lateral connections are overlaid on the hierarchical structure without changing the power distribution. The organisation simply expects participants to make the right trade-offs and do the right thing for the company, despite the fact that the governance of the company is aligned with the hierarchical units.

In other words, executives are busy controlling through the hierarchy, and others are busy trying to get things done that require work across the hierarchy.

In today's world, the operating system of many organisations and their structures are increasingly complex. Often with tens and even hundreds of thousands of employees spread around the globe, a key and enduring challenge is how to govern the organisation (see definition of governance below). Given limited resources, the organisation continually has to make trade-offs about what purposes will be pursued and what dimensions will be optimised. This is a relatively straightforward hierarchical process in an organisation where the business units are designed based on the principle of self-containment. It becomes more difficult when the organisation is designed for careful orchestration across dimensions to achieve leverage and synergy.

We define governance as the mechanisms that are purposefully designed to align behaviour across the organisation with the legal requirements, purposes, stakeholder expectations, strategy, and guidelines of the organisation, in order to achieve valued outcomes.

For many years, hierarchy – with power embodied in managers and executives - has been the mainstay of governance. Organisation design decisions were dominated by considerations of control. Hierarchy determined how goals were established, budgets assigned, metrics determined, decisions made, information shared, and how people were assessed, held accountable, and rewarded. In other words, all the elements of Galbraith's Star model (introduced in Chapter 1), were designed within the logic of a hierarchical system.

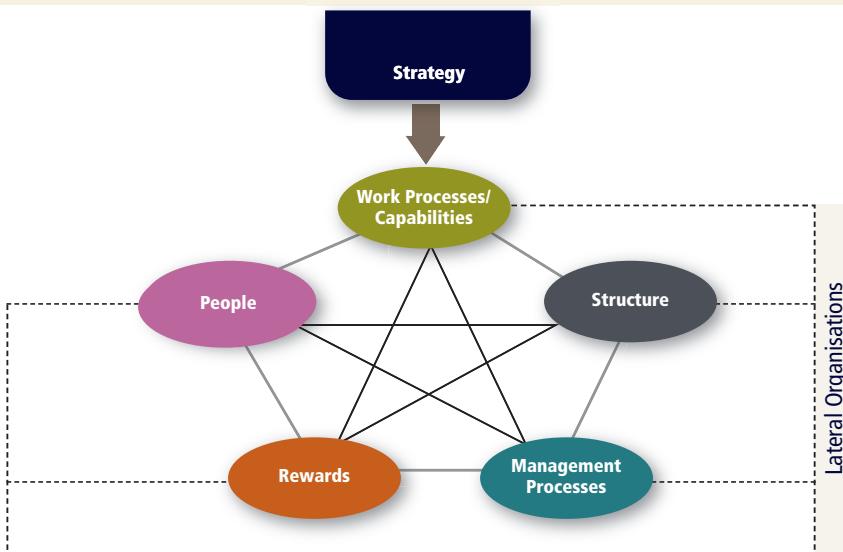
Today's challenge is that a purely hierarchical way of functioning no longer fits the reality organisations face. As we saw in Chapter 2, as organisations become larger, and more complex, dynamic and interdependent, hierarchy becomes insufficient as the sole mechanism of governance. This is because:

1. Increasingly, hierarchical chains of command are broken by lateral linkages that cut across units. Multiple dimensions each have their own organisational hierarchies while critical organisational processes cut across these dimensions.

Each element of an organisation's design sends messages about what is important. Organisations skilled in operating laterally have learned the importance of designing all the elements of the organisation so that formal authority is vested in lateral structures, not simply in the hierarchy. (Mohrman, Cohen and Mohrman, 1995). The column sets out some key issues for governance in the lateral organisation.

The figure below illustrates the need to purposefully design the elements of the star to support lateral and vertical functioning.

A Star Model Showing Lateral Elements



2. The variety of units, customers, stakeholders, cultures, and business models have increased at the same time that the organisational and physical distance of many parts of the organisation from the centre has increased. This is often true not only of distance from the corporate centre, but also of sub-units from the centres of each major business unit or function.

In Chapter 3, we described the challenges of designing to achieve the right balance of local control and system-wide integration to effectively carry out the strategy. Related challenges exist as organisations design approaches to govern these complex systems.

It is increasingly unrealistic to expect corporate executives to be in close enough contact and sufficiently knowledgeable about what is going on in the various parts of the business to govern multiple dimensions from the centre. The organisation must find approaches to governing from within and across.

In our research, we have seen many examples of governance approaches that are being put into place to supplement traditional hierarchical approaches. Organisations must find:

- the right balance of differentiation and integration in approaches to governance;
- the right level of control from the centre; and
- governance approaches that fit the operating model of the organisation.

Case Notes

Associated British Foods (ABF), operates as an accumulation of relatively self-contained businesses with traditional governance focuses on allocating capital, managing the performance of subsidiaries through monitoring P&L, and involvement in senior appointments. Yet even with its commitment to an operating model of self-containment, ABF has recognised that there is a greater need for standardisation, learning through the sharing of best practices, and systematic thinking about how businesses are organised. The centre currently carries a strong corporate memory and has been using this to build networks for sharing insight, experience, resources and best practice across ABF's subsidiary businesses. However, as ABF develops from mostly a UK to a multi-market business, it is harder for the centre to have sufficiently deep knowledge of the various countries and businesses to know who to connect for what purposes. Network connections, rather than leadership from the centre, will increasingly become the glue that connects knowledge, best practice, and access to resources across the corporation.

Governance and Accountability

Many organisations labour under the illusion that if they can more clearly specify roles and accountabilities, this will solve the problems posed by complexity. Clarifying accountabilities is a key element of the operating and performance management systems of any effective organisation. Brian Dive, in 'The Accountable Leader' has described the features of an accountable organisation and these are summarised in the Appendix.

Being clear about who is accountable for what is even more important in complex matrix organisations, where individuals may have to balance optimising their local business unit performance, achieving scale efficiencies within a global function, and ensuring the best interests of the parent company are served.

Organisational complexity implies trade-offs and dynamic reconfigurations of activities at all levels. Accountabilities must be to the whole as well as the specific situation, and must be defined and achieved dynamically. Governance provides the frameworks that align diverse and dynamic elements through time.

4.1

Elements of Governance

Governance is a hot topic today. It has taken on greater prominence in light of the recent financial and banking crisis and high profile corporate collapses such as Enron and Lehman Brothers. Many stakeholders ask how the controls in an organisation are so lax as to jeopardise the company, and how high in the organisation and deeply embedded are the incentives for behaviours that disregard the needs of stakeholders.

Key elements of governance include:

- aligning behaviour throughout the organisation with key societal norms, laws and expectations;
- aligning behaviour with the company's own standards, strategy, organisational model, and needed and intended outcomes; and
- the ability to govern across dimensions with conflicting views of the world, different cultural expectations, and with many organisational points of tension. Explicit approaches are needed to align decisions and behaviour with the overall interest of the firm.

The governance approaches we saw in the companies we interviewed combine 'hard' and 'soft' approaches. Hard approaches involve the authority and accountability systems of the organisation. Soft approaches rely on developing shared beliefs, frameworks, and values, and connecting people across the organisation such as by enabling networks for sharing, learning, acting on opportunities, and innovating.

Many organisations are finding that 'hard' approaches are necessary but insufficient. They derive largely from an approach that no longer fits with how organisations operate, i.e. centre-out and top-down images of controlling behaviour. We see an increase in companies supplementing 'hard' governance mechanisms with 'soft' approaches.

4.2

'Hard' Approaches to Governing across Dimensions in a Complex System

As described in Chapter 3, one way organisations seek to align behaviour is by vesting formal authority in the centre. In today's world, we see increased corporate control over decisions that impact the risk profile of the company and its businesses. The portfolio of significant capital projects and acquisitions is generally determined at the centre. Many corporations have gone through a transition phase from business units, regions or functions having control over their own IT expenditures to an integrated approach in which IT spending and strategy is decided in the centre. This transition often began with a centralised introduction of Enterprise

Resource Management systems to enable company-wide measurement and financial controls and other back-office activities. Increasingly CIO's are sitting on the executive leadership team, helping to forge business strategies heavily intertwined with IT capabilities, and ensuring system-wide synergy and optimisation. Research by McKinsey (Brown et al, 2013) also found that 'c-suite' executives are becoming more involved in shaping and driving digital strategies, with digital initiatives increasingly being sponsored by the CEO.

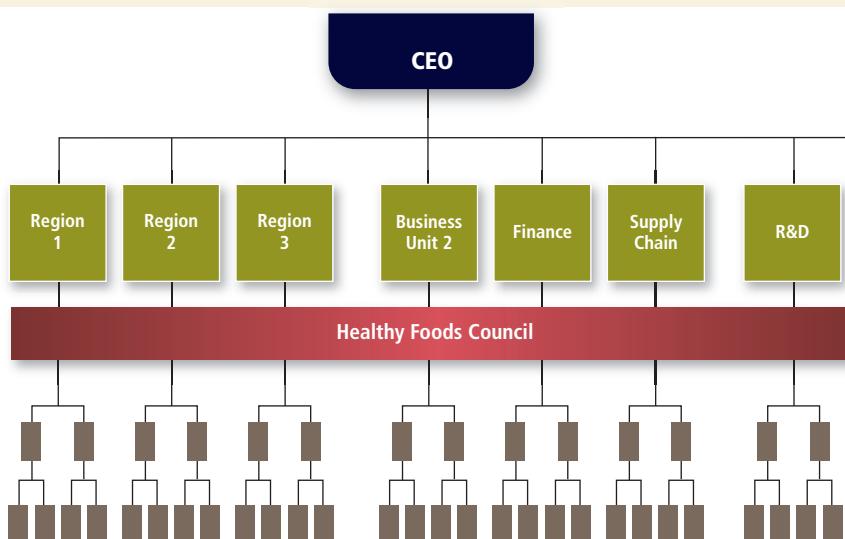
Two major approaches hardwire governance across the dimensions of an organisation without placing decision making in the centre:

- using councils and boards that cut across the dimensions of the organisation; and
- establishing cross-dimensional units that operate independently of the normal organisational chains of command, and may be governed by different processes (we refer to this as the 'ambidextrous organisation').

Councils and Boards

Councils and boards are set up to make cross-dimensional decisions on behalf of the company overall (see figure below). They provide focused decision-making forums lower in the organisation than the executive team and cut across key hierarchical dimensions. GSK and BAE Systems are examples of companies that are using councils and boards to take a more formal approach to governing across units that does not rely on centralising decisions (see Case Notes in the column).

Lateral Councils



Case Notes

GSK has established clear governance processes for the cross functional and cross-dimensional teams that carry out the core processes of the end-to-end value chain - early development, late development, and commercialisation (see Chapter 2). 'Franchise Boards' govern the commercialisation of drugs in particular therapeutic areas such as oncology, across GSK globally. They have authority to make decisions across the different cross-functional medicine commercialisation teams (tasked with commercialising particular drugs), the various supply chain units, and the local operating companies (country organisations) where they decide to introduce the drug. Their membership comes from these groups.

Previously regional GM's (who are accountable for P&L) chose whether and when to introduce a drug. They had decision making authority regarding forecasting, budgeting, and targeting. R&D would spend large amounts of money developing a drug, sometimes with country organisations deciding not to introduce it, or others introducing it despite weak potential in that particular market. Global strategies are now created by the Franchise Boards to promote the highest possible pay-back to GSK as a whole. Local operating companies and other groups now have accountability to the Franchise Board to execute their part of the plan. GSK is taking pains that this is not perceived as accountability to the centre, rather to a cross-business area team charged with optimising the performance of drugs in that area for the benefit of patients and the corporation.

"Points of tension arise when you have to break deep-rooted beliefs that get in the way of successful implementation of the design." **Sarah Leonard, VP and Head, Organisation Development, GSK**

Case Notes (continued)

GSK recognises that the Boards challenge many core assumptions about power and accountability inherent in the operating model of the past, and that other organisation design features will have to be adjusted to deal with the tensions among the various dimensions of the organisation. Clarifying governance is an important first step.

BAE Systems, composed of relatively independent business units operating with a high degree of autonomy, has a tight definition of what is governed by the centre. This is limited to key leadership and people processes, risk management, and ethical conduct of business – key competitive differentiators. Beyond these areas, governance has largely been a matter for business units. However, the desire to grow in international markets means greater consideration is being given to how units can share capability, and how the handoffs between business development, bid teams and delivery teams can be effectively managed.

BAE Systems recognised this need for greater cross-business unit leverage and synergy. It has enhanced the governance roles of functional councils in areas such as Business Development, Commercial, Procurement, Finance and Engineering. Set-up is reasonably formal, with a written constitution, and an Executive Committee member as leader. Members are drawn from the company's various business units, and nominated by senior managers. Their purpose is to define and support the implementation of common policies, processes and standards across different business units. This is to develop functional capability through supporting training or sharing best practices, and to establish measures of functional performance. Their role has become more important as BAE Systems moves into new markets and develops different businesses.

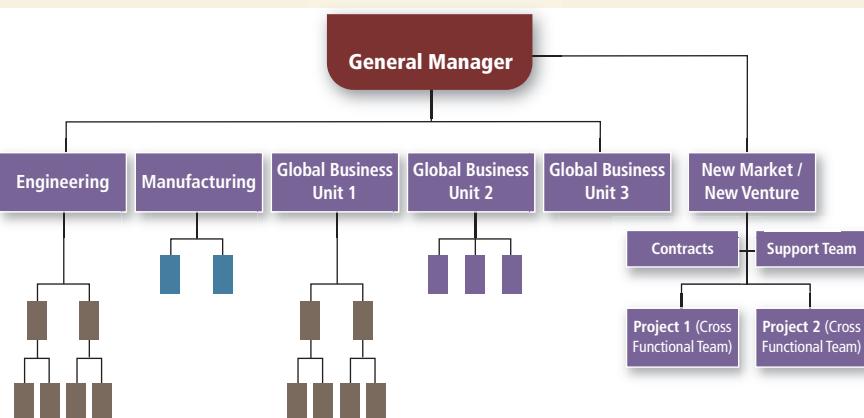
The Ambidextrous Organisation

Councils and boards enable governance that cuts across the dimensions of the organisation. On the other hand, the ambidextrous organisation involves establishing separate operating units for activities that may not be consistent with the current governance practices of the organisation (see figure below). This approach may be best if:

- a new business focus 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 that unit within an existing successful business may lead to the needs of the innovative unit being neglected in favour of feeding the core business.

To protect a new capability, the safest (but perhaps not the most efficient) design solution is to set up a completely separate unit with its own resources, and to govern it separately outside of the company's established governance processes. An early example was the start-up organisation IBM established to develop the PC business. It had its own resources and reporting requirements. Executive champions allowed it to circumvent many of the demands and biases of the behemoth mainframe based product organisation. Yet ambidextrous units often depend on the core for some (or many) resources, such as technology, administrative or logistical support, expertise or brand support-- thus the need for strong governance that enables the new business model to thrive. **Clear expectations must be set across the organisation's various dimensions about their role in supporting a venture operating on behalf of the future of the company.**

The 'Ambidextrous' Organisation: Designs in the Capacity for Two Different Kinds of Performance



"Our customers put a lot of confidence in us by turning service areas over for us to manage. Being transparent about our guiding principles and management system is a way of building their trust in us."

Geoff Lloyd, Group HR Director, Serco

4.3

'Soft' Approaches to Governing across Dimensions in a Complex System

Hard approaches can be used to align governance with corporate strategy, and to connect formal cross-unit decision making with the company's overall interests. Yet there are a myriad of decisions made every day throughout the organisation where employees make trade-offs across dimensions. For example:

- Opportunities arise that require the rapid assembling of resources across units but key functional, country or business unit managers are reluctant to free up resources to pursue them.
- A salesperson at the end of a quarter has to choose whether to achieve revenue by promising a product customisation, without checking with the relevant technical departments.
- A programme manager decides whether his software manager can attend a functional training session where new techniques will be demonstrated.

These decisions will be shaped in part by the common understandings, norms, and principles that guide behaviour in the organisation, and in part by the connections across the organisation that encourage individuals to consider both the big picture of what the company values and is trying to accomplish, as well as 'my piece'. Clarifying priorities, strategies, accountabilities and decision rights can only partially guide these decisions. They relate to people's understanding and internalisation of the governing principles of the company.

A number of the companies we talked to have introduced 'soft' governance mechanisms to facilitate working across the organisation, and to govern the system with a minimum of top down hierarchical constraint. These are aimed at influencing behaviour by establishing common frameworks and values, and by building deep network connections across the company.

Governing through Frameworks

Serco's business divisions operate with a high degree of autonomy and independence. Its business model calls for long term service contracts characterised by continual innovation and service delivery improvement. A firmly held principle is that decisions should be made as close as possible to the customer and controlled by the contract managers - the people working on a contract should feel that they are running a business.

Case Notes

Standard Chartered has established a small innovation unit tasked with spearheading the bank's transition to mobility oriented services and products. Called SC Studios, it is located in Silicon Valley, far from headquarters. It is a very small group that operates through a network model, partnering with a wide variety of innovators in the Valley, and taking advantage of the open-source network that has developed there. Set up and championed by the CTO, it is not subject to many of the administrative procedures or typical business case requirements for investments at the bank. Governance consists of:

- the bank's mainstream units judging whether ideas generated help the bank achieve its mobility goals; and
- reviews by the CTO and business leaders of the extent to which the unit is helping introduce new approaches to the businesses.

"We talk about a network organisation, where we encourage people to work together where it's in the interests of the customer. But, provided it's inside the framework, it's also fine to do it on your own."

Jonathan Lawrence, Group Vice President – Human Resources, Intertek

Case Notes (continued)

Thomson Reuters has set up the Global Growth and Operations (GGO) unit to accelerate its business in emerging markets. The vision is that the unit will establish new ways of operating that better fit low-GDP, but rapidly growing, markets, which find Thomson Reuters' typical products and services to be expensive and elaborate. New approaches in emerging markets may also lead to reverse innovation that enhances the company's competitive advantage in developed markets. GGO is set up as a separate business unit, but that gives rise to typical tensions experienced by such units. It depends on content and product development support from the firm's 4 global customer businesses. However, because it is new and the current emerging markets business is quite small, it has difficulty competing in investment prioritisation decisions, based on immediate revenue potential.

GGO's success will require development of governance processes that:

- alleviate the constraints experienced by established business units;
- define appropriate start-up milestones and outcomes; and
- establish cross-unit expectations about the accountabilities of the customer/product organisations in contributing to corporate goals for growth in these new markets.

The principal governance mechanisms from the centre are the business performance of the divisions, as measured by the P&L and the balance sheet. However, as Serco has grown more complex, becoming global and growing from its initial focus on government customers, it recognises that it must expand its approaches to govern the system. Growth depends on:

- the confidence current and potential customers have in the organisation – which can be quickly undermined by poor performance and bad press anywhere in the far-flung system.
- the ability to build on existing knowledge and experience in convincing potential customers that Serco has the expertise and know-how to deliver new services.

The Group uses frameworks, rather than hierarchical control, to govern across the organisation. Recently, it has more fully codified the Serco Management System (SMS), which all businesses must operate within. The SMS covers:

- the company's vision and strategy;
- the policies and standards that define how the business is managed; and
- the principles that underpin operational practices and behaviours.

This framework allows for a fluidity of activities across different divisions, but forms a 'glue' that drives cohesion across different parts of the Group. It is also transparent, and is published on Serco's website. Such transparency gives external stakeholders confidence in the integrity and rigour of an organisation providing critical services. See the column on the next page for more information.

Intertek also operates through contracts to verify products and processes for corporations all around the world. As it has grown, it has maintained the foundation of its business, focused on fluidity through flexible and empowered contracts. But now it has increased emphasis on global product lines and market sectors, in addition to local country organisations. In its journey to become 'One Intertek', it operates by providing frameworks and basic principles within which the local businesses have a great deal of discretion. For example, HR provides frameworks such as the core elements of effective recruitment that are expected to guide local hiring. The business provides frameworks for how employees are assigned to a contract, with a distinction between those billed directly to the client versus those in support roles. The company manages based on outcomes, such as bench strength or timeliness of recruiting, not process. The major principle guiding all interactions across the company is to coordinate where it helps meet the needs of customers and Intertek employees.

Role of Values in Governance

As we discuss above, a consistent flow of direction from the top is necessary but insufficient to govern a multi-directional organisation where reliance on individual judgment and discretion in ambiguous situations is essential. Many of the organisations we interviewed find that aligning the company around shared values is a key way of achieving cohesion and a sense of direction and purpose across a complex and diverse global business.

Values are governing principles. Instilling shared values is not a 'nice-to-do', but a way of connecting and aligning the different dimensions of the organisation - a way of 'gluing' the organisation

Our case studies demonstrate how company values can be used to further other organisation aims:

1. **Integration:** Vodafone has achieved global scale largely by acquiring businesses in different countries. The company places a high degree of emphasis on organisation beliefs and values as a way of integrating divergent business units. In key areas such as brand management, this has led to a clearly defined 'Vodafone Way' of doing things. The brand team operates as a tight community with a head of brand reporting to each market. Brand management is organised as a network to allow sharing of best practice and definition of common processes. This contrasts with Technology, where moving to commonality has entailed a 'harder' approach, with market based technology leaders reporting directly to a central technology function.
 2. **Self-Regulation:** Many of the companies we interviewed emphasised that the ways in which company values are played out in practice are often as important as the formal organisation. For example, Rolls Royce's company values of reliability, integrity and innovation play a significant role in how teams come together and operate. A deeply embedded, company-wide focus on being trusted to deliver excellence means teams can be allowed to self-organise to deliver customer solutions.
 3. **Change:** Barclays recently undertook a fundamental review of how it does business, following the fine imposed in 2012 for LIBOR manipulation and resulting change of CEO and Chairman. The bank has examined its existing culture and developed a redefined set of values and standards of behaviour. These are being used to rethink how staff are assessed and rewarded, and how business performance is measured. This is an example of a 'soft' approach (defining values) being translated into 'hard' outcomes (measuring performance and reward). The alignment of 'soft' and 'hard' is especially important given the bank's drive to reset the moral compass and aggressively work for behavioural change.
 4. **Continuity:** Unilever's sustainability strategy has attracted much interest. The company has set an objective of doubling turnover while reducing its environmental footprint. This has echoes of the ethical philosophy of the Lever brothers who founded the business in the 1800s, and developed a garden suburb at Port Sunlight to provide housing for the workforce. A recent interview with Paul Polman, the CEO (see Further Reading), shows that the founding principles of the company still hold sway. Values can live on in an organisation long after the death of the founders or changes to the organisation through mergers or acquisitions.
- Robust networks, such as Vodafone's approach to brand development, can be powerful governance devices that fit well with the need to work laterally across a complex organisation. In the next chapter we will address the use of networks in the area of knowledge leverage.

Serco Management System (SMS)

The SMS is described in detail on Serco's website. We found it interesting for an organisation to make such thorough information publicly available. Below is an extract from Serco's website.

In this section, you can find out more about the Serco Management System (SMS) which is the Group's mandatory management framework within which all parts of Serco must operate. The framework defines what we want to achieve (our Vision), what we intend to do (our Strategy), how we manage our business (our Policies and Standards), and how we operate and behave (our Five Foundation Stones).

By operating within the SMS, we make sure that we are:

Embedding our Governing Principles

Each policy area within the SMS reflects one or more of our Governing Principles. Complying with the SMS means we are living our values.

Reinforcing a single company approach

The SMS protects our heritage by ensuring we all operate to acceptable standards. It provides the cultural 'glue' which makes sure that wherever we work, we are recognisably Serco.

Driving standardisation and reducing risk

We have built the SMS on proven best practice. It enables consistent governance, service delivery and quality, and reduces the risk in our business.

Enabling growth and efficiency

Common standards improve our efficiency and reduce errors. Strong governance supports our growth by giving us the tools to evaluate and manage new markets. The SMS helps different parts of Serco to collaborate, enabling us to more easily combine resources in response to opportunities.

ORGANISING TO MANAGE KNOWLEDGE

5

ORGANISING TO MANAGE KNOWLEDGE

Topics covered		Introduction
5.1 Networks and Knowledge Management	61	This chapter considers how to organise to make the most of one of today's key competitive differentiators: knowledge. We review how firms are using formal and informal networks to obtain, generate and retain knowledge, and look at the network organisation, a model many companies are adopting for this purpose.
5.2 Networks and the Formal Organisation Design	64	
5.3 External Networks: The Network Organisation	64	

"The quality of output from communities of practice is only as good as the capacity of the businesses to do something with it. It's really important that business units are capable of absorbing and internalising knowledge shared across boundaries." **Quintin Heath, HR Director, AB Sugar**

Four core knowledge management processes

1. Sharing and combining knowledge across the organisation.
2. Embedding knowledge in standard processes and continually infusing those processes with new knowledge.
3. Experiential learning--trying out new approaches, learning from them, and disseminating the learning.
- 4 Focusing members' attention on overall system performance rather than to narrow, local definitions of success.

Source: Mohrman, 2007

Today's sustainable competitive advantage is knowledge: rapidly creating it, importing it, analysing and interpreting it, leveraging it, and applying it to deliver higher value than competitors. So it is not surprising that many of the organisations we interviewed consider the leveraging of knowledge to be both an important need and a design challenge.

Knowledge defines and is embedded in the processes and the expertise of the corporation – yet sustaining knowledge leadership requires explicit focus and the intentional building of an organisation's knowledge capabilities. This includes:

1. updating, deepening and broadening discipline and functional knowledge; and
2. building the capacity to combine knowledge across disciplines and functions to carry out highly interdependent processes, solve complex problems, and generate novel solutions.

As market environments and corporate strategies change, and organisation designs evolve and become more complex, the challenge of managing knowledge in the organisation also changes. Approaches that enable the organisation to grow, share, and combine knowledge across multiple dimensions underpin innovation, new product development, and expansion into new markets in many firms.

Consider the evolution of GSK, described in Chapters 2 and 4. It transitioned from being structured primarily around discipline and functional units organised to optimise deep technical knowledge, to one now doing its core work through cross-discipline and cross-functional teams. Research in the pharmaceutical industry finds that a firm's success in introducing new drugs is dependent not only on advancing specialised technical skills and knowledge, but also on the organisation's capability in combining diverse knowledge bases such as research, clinical testing, and commercialisation (e.g., Henderson and Cockburn, 1994). GSK's impressive results in revitalising its pipeline bear this out. GSK has now organised to focus on key cross-functional processes, disciplines and functions, therapy areas, and geographies. Growing and disseminating knowledge in all four of these dimensions is necessary for the effectiveness of the complex networks across the company.

Designing to derive market benefit from knowledge entails fostering a number of organisational processes that cut across units and involve networks of connections (see the column). As organisations become larger and more complex, these processes do not happen easily. Different units, driven by local concerns, often prefer to generate their own knowledge and processes and are reluctant to accept solutions from another part of the organisation. Communities of practice, which emerge relatively naturally among people carrying out similar functions in a small, hierarchical organisation, are more difficult to build and maintain when disciplines and functions are split into different business, customer, and product units, and different geographies.

Yet, knowledge leverage is often a key strategic justification for growing the organisation and a foundational element of entering new markets and innovating. **Knowledge leverage approaches have to mirror the complexity of the organisation.**

"One of the key areas where HR can add value is by creating networks of people to share knowledge across the business." **Quintin Heath, HR Director, AB Sugar**

5.1

Networks and Knowledge Management

Just as organisations have created cross-dimensional task networks and governance approaches to deal with complexity, they are also building and enabling knowledge networks across the organisation. Paralleling our discussion of governance in Chapter 4, these networks combine hierarchical and lateral features.

Formal knowledge networks

Where the business model depends on common global processes, networks are often built and led from the centre and rely on hierarchical governance, with the explicit purpose of bringing together the perspectives and knowledge of different units to converge on common solutions. For example, to develop and enhance its common technology platform, Vodafone changed the reporting of country based technology leaders to report to the centre, and built a supporting network across geographies. On the other hand, in the transition to a global Vodafone brand, it chose not to centralise reporting lines. It created a rich community of market-based brand specialists, each with particular knowledge of their geography, to work with a very small central group on developing and evolving the brand.

Companies with relatively self-contained businesses are also realising that leveraging knowledge is integral to profitable growth (see the column).

Case Notes

Associated British Foods (ABF), as discussed previously, ABF manages its subsidiaries largely through financial metrics. However, as the group has expanded into new businesses and geographical markets both through acquisition and organic growth, the subsidiaries are increasingly looking to the centre for help coordinating certain specialist skills across the group. Procurement is a function where competitive practices are evolving quickly. Although each subsidiary is responsible for procurement, it is inefficient and sometimes not possible for each to develop new approaches independently. The centre operates a collaborative group-wide procurement network to share tools and expertise, led by a Chief Procurement Officer supported by a small central team. Participation is not mandatory; rather subsidiaries choose to participate if they perceive a benefit. This approach fits the group's philosophy of allowing businesses as much autonomy as possible.

Knowledge Forums for Advancing Organisational Capabilities



Centre of Expertise:

- collects information
- defines process based on best practice
- sponsors tools and advancement
- shares lessons learned
- continual improvement
- spearheads talent rotation

Regions and Global Business Units:

- provide input based on local knowledge
- tailor
- test and learn

AB Sugar, one of ABF's subsidiaries, has also grown through acquisitions, and has a strategy to become the world's leading sugar business. One of the tenets of this strategy is to build on the strength of local country businesses while linking knowledge across the company. AB Sugar's central HR team has a remit to drive value by opening up channels of communication across the business, allowing knowledge to be shared, and individual country businesses to be challenged on their strategy and performance. It has facilitated the set-up of communities of practice in areas such as Agriculture, Operations, and Commercial. Each community has a chairperson, a technical facilitator, an HR facilitator, and a representative from each business unit on the steering group.

Case Notes (continued)

HR's role in these communities has included making sure there is a process for sharing knowledge and developing opportunities for international careers. The communities also identify common opportunities for improving performance, which feeds into business planning processes.

Serco operates as a highly devolved business, with a small corporate centre and autonomous divisions which pursue business opportunities within a mandated management framework. Particularly as it has expanded beyond its roots in government contracts, and the scope and diversity of different divisions has increased, it has established global services that look to share technology, products and solutions. Functional forums have been established to advance cross-dimensional frameworks and guidelines for the functions. The organisation is now addressing the need to evolve mechanisms to share technical knowledge and coordinate across the Group.

Deep-rooted, founder-defined values include organising around customers and empowering the contract manager to run and grow the business with a strong sense of personal ownership. However, this approach does not encourage sharing of knowledge which would enable the pursuit of new opportunities in different geographies. According to Geoff Lloyd, Group HR director, 'The biggest single challenge we have is taking something that works and getting it adopted elsewhere'. So Serco is beginning to create forums and identify practice leaders in domains where knowledge management is critical. It is moving toward a more matrixed way of operating.

Facilitating knowledge exchange from within

Networks that are planned and run from the centre are insufficient for flexible and informal exchange across the multi-dimensional organisation:

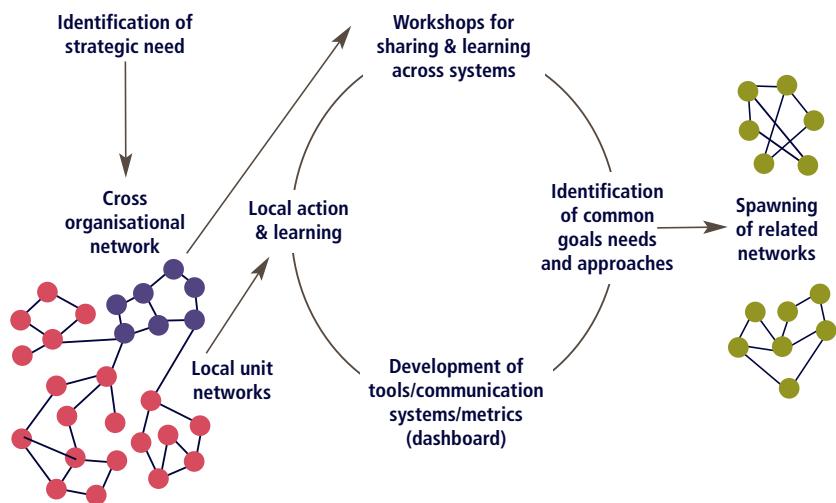
- Virtual communities of practice may be enabled, but not necessarily led, from the centre.
- Communication technology, most notably social media, has catalysed lateral sharing, reducing dependence on hierarchical direction to connect the people with the knowledge they need to do their work and advance their knowledge and interests.
- Being able to draw on the knowledge of others in broad networks provides the foundation for self-regulation and knowledge sharing – and a way to work across complex organisations (see Case Notes in the column opposite).

Knowledge networks have also been used to help define and accelerate organisational change. One of the biggest challenges facing complex organisations is how to align multiple dimensions and far-flung operations to accelerate change implementation. Central planning is a weak and slow approach, particularly when diverse operating units have unique needs and expectations of autonomy. Networks can be used to combine knowledge from many perspectives, to forge a path forward to achieve the strategic objectives.

Cleveland Clinic, in Cleveland, Ohio, has grown by acquisition to consist of many medical centres and clinics, each of which house physicians and other medical groups that expect professional autonomy. As it has developed into a more integrated system and leader in U.S. HealthCare Reform, Cleveland Clinic has built and empowered networks throughout the system to craft, pilot, assess, and disseminate changes, and to determine new standards and organisational approaches. These networks are reshaping the operating and governing practices of the organisation.

One example is an extended network cutting across all facilities, assembled by a two-person 'Office for a Healthy Environment' in order to make Cleveland Clinic a world leader in healthcare sustainability. Self-nominated champions from each facility and function meet and share information virtually as they explore and implement approaches to build this new capability at Cleveland Clinic. Each champion pulls together a network of interested people in their facility or function to pilot different approaches and then shares the learning across the system. Web-sites and other communications approaches link interested people throughout the system with knowledge and updates about sustainability. Participants are encouraged to get involved virtually and in person in regional, national, and international conferences and networks, and to become part of key industry-wide change initiatives.

Networks of Change and Learning Across the Organisation



The core team:

- gradually built an automated measurement and communication system including a fully transparent reporting system about healthcare sustainability issues;
- spearheaded the Cleveland Clinic's signing on to the UN Global Compact; and
- determined which measures are included in the organisation's balanced scorecard, its key performance measurement mechanism.

Intertwined specialised networks have emerged in related areas such as sustainable procurement, healthy foods, zero landfill, energy self-sufficiency, and zero-emissions. These networks, involving thousands of people, connect many functions and facilities across the system. They have become heavily intertwined with networks that reach into the community, and larger industry and professional bodies. Most strikingly, with central support, but without central direction, these networks have significantly improved performance in the key areas of healthcare sustainability. (Source: Mohrman et al)

Case Notes

In Shell's exploration arm, for example, engineers working on various exploration sites are encouraged to describe the problems encountered, for example, in particular geological formations. They can invite others from around the world to share related experiences and potential solutions. In this way, geographically distributed members collectively advance knowledge in the context of actual working problems.

(Source: Mohrman et al, 2003)

Google has developed a social media approach for employees to test ideas with their peers. Ideas that appear to generate a great deal of interest and positive response are worked further until a business case is developed that justifies investment in a project. This process is facilitated by Google's policy of allowing engineers to spend 20% of their time working on projects of their own choosing.

(Source: Eisenmann and Herman, 2006)

Case Notes - The Network Organisation in Practice

Apple's App Store is a good example of a network organisation in practice. Apple provides a platform for other companies to develop applications, and brings together content providers, wireless operators and application developers to deliver a rich user experience. The success of products such as the iPhone is partly due to the range of services available through the App Store.

Rolls Royce is also using some aspects of network organisations to refine its operating model. The company has a team of engineers in India who act as brokers, dealing with different external firms to source high quality services for the business. The company also operates a network of joint venture companies. It has the greatest number of joint ventures of all FTSE 100 companies, and has developed deep expertise in setting up and running JVs effectively.

5.2

Networks and the Formal Organisation Design

With the emergence of modern information technology and communications capabilities, knowledge networks have become pervasive in today's society. They make formal institutions and structure far less dominant than in past eras. This same capability is impacting organisation design. Furthermore, it offers complex organisations new avenues for accessing and leveraging a critical resource: knowledge.

- Knowledge networks can emerge spontaneously or be designed to promote a reliable pathway for the flow of knowledge, both within and into the organisation.
- Formal networks can link disparate perspectives across organisation dimensions, and provide a framework to enable informal, spontaneous connections for learning, coordination and innovation.

As Cross and Thomas (2009) show, **networks are critical to driving results, but the bureaucratic and segmented nature of many organisations prevents them from forming and operating effectively**. Practices and procedures, such as rewards and performance evaluations, job descriptions, and goal-setting need to support the operation of both formal and spontaneous networks. Increasingly, formal networks are extending beyond the boundaries of the firm, and are explicitly built in to the organisation design.

5.3

External Networks: The Network Organisation

Companies today increasingly find they do not have all the skills and resources they need within their own organisation, particularly with regard to new product development, solutions generation, and innovation. Keeping up with the latest technology developments is difficult. To recruit or train the specialist skills needed to deploy new technologies is either prohibitively expensive or takes too long. For flexible access to talent, many organisations now build extensive network connections to external contributors.

The network organisation builds task and knowledge networks with and among other companies, in order to supplement the capabilities of the organisation. An early example was Toyota's large, organised networks of suppliers, that allowed significant growth in the number of cars assembled and delivered while only marginally growing the size of the organisation. This was achieved by outsourcing all but the most competitively critical elements of the vehicle, and by building strong network connections with and among its suppliers. Sun Microsystems, Microsoft, Apple, and many other technology companies have built large networks of software engineers and applications developers, who bring specialised skills and knowledge and greatly expand these companies' ability to provide a system of value to the customer.

These networks enable companies to deal with convergence across previously separate industries, without having to house and manage expertise internally (see Case Notes in the column).

Studies of Toyota's early application of this way of organising found that advantage derives from knowledge exchanged among network members, and requires:

- Using information technology to tightly coordinate the members' interface with Toyota and with each other.
- Advancing the capabilities of the network overall in concert with Toyota's technical roadmaps.
- Building connections between members of the supplier network, so they can increasingly manage the coordination tasks and add value to Toyota.
- Building the internal knowledge and capability within Toyota to effectively manage the network and learn from it.

In effect the companies mentioned in this section have created a networked 'eco-system' with other companies and individuals who are knowledge and business extenders. These networks:

- move much of the coordination and integration of work and the advancing of knowledge in non-core areas out of the company;
- take risk out of the corporation;
- can be configured quickly and flexibly to meet a specific objective and be rapidly disbanded or reconfigured once a project is completed; and
- allow organisations to be agile and continuously innovate in a fast changing environment.

Knowledge management is a critical focus of the network organisation. The advantages of access to increased knowledge and expanded capabilities through networks need to be balanced with the risk that the firm's competitive advantage may be eroded by sharing intellectual property and technical knowledge with other network participants.

Lateral design is also critical to the success of network organisations, in this case, lateral design that goes across the company's boundaries. The framework of governance of knowledge and task flow in network organisations has become a critical focus of many corporate centres.

Knowledge networks are an integral part of organisations' innovation capacity. In the next chapter we describe the design challenges and trends associated with innovation.

DESIGNING ORGANISATIONS
FOR INNOVATION AND AGILITY

6

DESIGNING ORGANISATIONS FOR INNOVATION AND AGILITY

Topics covered	Introduction		
6.1 The Challenge	68		In this chapter, we examine trends in innovation and their design implications. We then consider design choices organisations face in balancing the demands of existing and new businesses. We also consider emerging organisation forms, designed to increase the capacity of firms to adapt quickly to changes in their environment.
6.2 Innovating in a Connected World	69		
6.3 Large Group Processes for Innovation, Redesign, and Strategy Formulation	72		
6.4 Design Choices	73		
6.5 Agility and Sustainable Effectiveness	76		

6.1

The Challenge

Organisations today must resolve a critical dilemma: economic conditions and competitive pressures mean companies must achieve scale and operational efficiency, but they must also develop new products and services, and innovate. The pace of change and emergence of new technologies and competitors leave organisations with no choice but to continuously change or die. However, many large organisations find it extremely difficult to react to disruptive change in their environment. Examples include:

- Kodak was unable to adapt its business model from analogue to digital photography and has seen a decline in its business resulting in Chapter 11 bankruptcy in 2012.
- Nokia failed to respond adequately to the threat posed by smartphone manufacturers such as Samsung and Apple. Having once been the world's leading handset manufacturer, it now no longer features in the world's top five smartphone makers, and its handset and services business is being acquired by Microsoft.
- Sun Microsystems tenaciously held to its hardware model even as the industry started to converge around it. Weakened, it was eventually acquired by Oracle.
- Even Microsoft, still one of the most profitable businesses in the world, is struggling to gain traction in the new world of mobility and the Cloud.

One reason for this is that optimising core operations and developing innovative products and services require different – often contradictory – approaches (see figure below).

Characteristics of environments focused on optimising core operations	<ul style="list-style-type: none"> • a stable, gradually evolving strategy • tight controls, a clear hierarchy and governance structure, i.e. a rigid way of functioning that is inhospitable to change • innovation processes are often centralised, tightly managed, and separate from operating units • operating units may focus on incremental change to their existing business model.
--	--

Characteristics of environments that support the identification and flexible development of emerging opportunities

- a fluid approach to strategy, organisation, and innovation
- use of flexible, network-based projects
- dynamic deployment of resources
- non-hierarchical structures and processes that encourage innovation from the periphery and from across boundaries, and that enable experimentation with disruptive approaches.

There are inherent challenges in housing these two approaches within the same organisation. As many large organisations have discovered, even having world-class R&D centres does not ensure that the firm will take advantage of the knowledge gained (see the column).

In large companies, the operating organisation often sees adopting new approaches as a risky distraction from growing and optimising the core business. This, combined with a tendency to reject ideas that are 'Not Invented Here', often locks the company into a way of functioning where it falls prey to disruptive innovations from competitors and start-ups.

Mobility, connectedness, and ease of communication, data gathering and analysis, have paved the way for new ways of innovating and innovative ways of organising. Ideas are easy to copy, and competitive advantages in today's world are temporary. In a world where connecting knowledge, ideas and information is routine and almost instantaneous, organisations must become more agile.

Organisations also have to operate efficiently in order for their products and services to be timely to market and competitive. The simultaneous need to innovate and operate efficiently is an inherent part of the complexity faced by today's organisation.

6.2

Innovating in a Connected World

New technologies such as social media, sharing technology, online markets, cloud computing, big data and multimedia communications are revolutionising the options available for organisation design. The pace of change is also pushing organisations to design in ways that are more agile and reconfigurable. Innovation is not limited to the products and services companies provide to their customers – it is leading to new organisation forms.

World-class R&D does not always translate to business success

- AT&T's Bell labs generated countless scientific and engineering breakthroughs, many of which formed the basis for other successful companies but never were incorporated into AT&T's business.
- Xerox's Parc Research Labs could not convince the operating company to take advantage of the graphical user interface (the Xerox Star) that later formed the basis for Apple's Macintosh computers.
- Microsoft is widely believed to have developed the technological know-how to compete in almost all areas of today's highly converged world of electronics and communication. Yet it has not developed innovative systems that have excited the market.

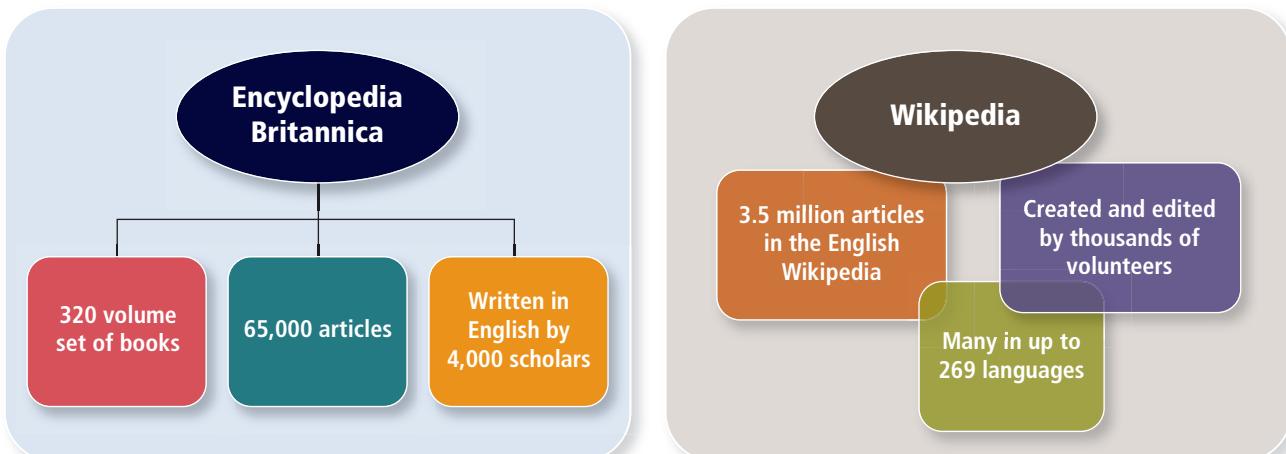
Open innovation, a term coined by Henry Chesbrough and others, refers to organisational strategies to broaden innovation boundaries, both in importing new ideas from outside the organisation, and in out-licensing, selling or partnering to bring their own ideas and technologies to market. Companies are looking beyond their internal R&D capabilities for additional routes to the knowledge and ideas required for innovation. They cannot rely on business units to go beyond incremental changes in their products and services.

Open innovation mirrors a broader trend in society, called by Eric von Hippel (2006) the 'democratisation of innovation'. In it, innovation is becoming decoupled from companies, and is being driven increasingly by voluntary connections between self-organised, self-motivated private individuals.

Wikipedia is often used as an example of open innovation. It consists of more than 3.5 million articles, all created by tens of thousands of 'volunteers'. Within 5 years of conception, this free resource quickly surpassed the Encyclopedia Britannica in volume, use, and by some accounts in quality. It radically challenged the Britannica's traditional model of periodically creating a 32 volume set of books with 65,000 articles written in English by 4000 experts. Indeed the Britannica ceased producing a print version in 2010 (Villarroel, 2013).

The figure below depicts the difference in organising between a network organisation and a hierarchical structure. Wikipedia, for example, is governed by 'soft' approaches including a code of conduct with a principle that articles are to be accurate and written from a neutral point of view.

Encyclopedia Britannica and Wikipedia



Some companies are also using customer-led innovation approaches to involve customers in the design and marketing of products. Others are using open innovation approaches to connect with relevant technical knowledge and to draw on a broader community for ideas and solutions (see Case Notes in the column).

Organisational problems associated with open innovation include:

- the danger of becoming overwhelmed by responses, many of which have no possible usefulness to the company, and may become a distraction to the organisation's core work.
- threats to intellectual property as innovation partnerships develop.
- open innovation, by itself, does not reduce the likelihood that innovative approaches will be rejected by business units, who will then not go on to commercialise them.

Design features that are associated with effective use of open innovation address many of these risks, and include:

- An internal process to clarify where greatest advantage value can be obtained from using open source to address problem areas.
- Careful articulation of the open source requests made to outside contributors. Companies like Siemens spend months generating the questions asked of outsiders. (Lackner, 2013).
- Systematic processes for interfacing with members of the network who contribute ideas, and for ensuring that a win-win relationship develops. There are clear guidelines governing the relationship between companies like Apple and Microsoft with their networks of software developers in the eco-system, and expectations of an ongoing relationship that motivates entrepreneurial behaviour, energy and loyalty.
- A systematic process to screen and share promising ideas with general managers, product managers and R&D teams world-wide.
- A reward system that favours speed of innovation development, and the importing of ideas from the outside.

Technology allows companies to access and test new ideas much quicker than in the past. These open approaches add to the complexity of the organisation, by adding yet another dimension of activity, and requiring lateral work both within and outside the organisation. They challenge traditional forms of governance and planning. But, companies that don't adopt these new approaches run the risk of falling behind and 'missing the turn' at critical strategic junctures.

Case Notes

Procter & Gamble. In 2000, P&G established the Connect + Develop open innovation initiative to boost and accelerate innovation and growth. It includes both proprietary and open networks:

- 1) a secure IT platform for its top 15 suppliers, where it can draw upon over 50,000 R&D staff for possible solutions to problem briefs
- 2) web-based open networks to connect with universities, government and private labs, and consultants that can develop solutions to science and technology problems.

To encourage up-take of new ideas, it has an online catalogue, Eureka, to distribute ideas for product innovation and new technologies to its general managers, brand managers, and R&D teams worldwide.

According to P&G, around half of new product development initiatives have essential elements drawn from external ideas or discoveries. This has led to a doubling of the success rate of innovations, an increase in productivity of around 60%, and a drop in the cost of innovation of around one-quarter.

(Sources: Piskorski et al, 2007 and Sørensen, 2011)

"Design thinking is a human-centered approach to innovation that draws from the designer's toolkit to integrate the needs of people, the possibilities of technology, and the requirements for business success."

Tim Brown, President and CEO, IDEO

Case Notes

Alegent Health, an integrated delivery system and physician-health organisation in Omaha, Nebraska, has developed a decision accelerator capability that has served as its primary vehicle to redesign healthcare delivery and greatly improve outcomes and cost in this multi-hospital system. Over a five year period, it has:

- conducted hundreds of sessions that have created and implemented service line strategies;
- developed innovative approaches to the delivery of behavioural medicine;
- created and implemented a rationalised approach to the delivery of services such as cardiac surgery;
- developed innovative approaches to hospital safety that saw the system being awarded as top quality healthcare system in the U.S.; and
- reconceptualised the use of IT in health care delivery.

In effect Alegent has instituted a highly participative, multi-dimensional, networked approach to manage the processes of innovation and change that tend to paralyse many large, hierarchical systems. This dynamic system co-exists with the operating organisation that is designed for reliable care delivery, and that is characterised by clearly defined processes, departments, clinics, teams and hierarchical leadership. The success of such a system depends on clear 'switching rules' – on the understanding of what work is done in the decision accelerators, and when decisions and plans gravitate to the operating organisation for implementation and learning.

(Source: Worley, 2012)

6.3

Large Group Processes for Innovation, Redesign, and Strategy Formulation

Organisations are increasingly assembling large groups pulled from across the organisation, sometimes including external experts, customers, and other stakeholders. They come together in highly structured workshops that combine many diverse perspectives in a creative process to design product or service innovations, or novel strategies, business models or organisation designs.

An early purveyor of this approach was IDEO. It is a global design firm that helps organisations address their growth needs by building in the capability to envision new ways of organising, and designing innovative products, services, brands and organisational features to bring them to life.

In the organisation design field, Stu Winby's Strategic Change Group at Hewlett Packard in the 1990's designed an accelerated decision process. It allowed divisions to assemble a large group of participants and in 2 days redesign the division to address strategic changes.

These large group interventions:

- combine data and analytic support with processes to combine viewpoints, knowledge, and preferences to generate novel solutions;
- cut across boundaries and assemble expertise both from within and outside the organisation;
- work outside of the hierarchical structure of the organisation, offering an alternative approach to doing and governing work; and
- rapidly build a network of contributors, and one that is often tapped as the organisation moves forward.

From an organisation design perspective, large group processes are optimally designed to deal with the complexity of the challenges being faced in an organisation. These include the accelerating rates of change that organisations are facing. They work across many organisational dimensions, and increase the probability of generating novel products or solutions that address people's needs and concerns.

Large group processes are highly technology-enabled. Companies are using social media to get broad input from customers – employing various crowdsourcing approaches. Employees at all levels and throughout the organisation are being drawn into discussions of strategy, design and innovation. IBM's 'jams' – social media based platforms that allow an 'all employee' discussion of issues such as strategic opportunities, culture, and direction – are an example of a very large group input process, involving thousands of people. Combined with new technologies to code and analyse data, these approaches provide companies with invaluable input that taps into the collective experience of customers and employees.

The pace of change is also pushing organisations to design in ways that are more agile and reconfigurable. Innovation is not limited to the products and services companies provide to their customers and the processes they use to develop and commercialise these. It is also leading to new organisation forms.

"Actions that sustain growth and high performance ... create rigidities over time that require strategic processes to be decentralised, distributed, internally participative and (selectively) open externally."

Doz, 2013

6.4

Design Choices

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

- Should units which develop and house innovative business models be allowed to operate differently to the rest of the organisation?
- Should innovation be housed in a separate part of the organisation, such as a business unit that's responsible for new product development, or embedded throughout the organisation?
- Should innovation be centrally coordinated 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?

Organisations from our case study companies are tackling these issues in quite different ways, depending on their strategies and the logic of their operating organisations (see Case Notes in the column).

Case Study

Standard Chartered – An innovation unit with its own identity.

Standard Chartered Bank has set up SC Studios, a small office in the San Francisco Bay area. The unit's purpose is to track and interpret technology trends on behalf of the bank in areas such as payments, security and big data, and to develop new applications. The name given to the unit – SC Studios – was chosen to allow the unit to blend in more easily with other businesses in the Bay area. Part of the Studios' remit is to build a broad network among local hi-tech businesses and venture capitalists, to identify emerging technologies and promote their development within the bank. The Studios also co-develop products and applications with partners from this network.

The Studios have deliberately been set up at arm's length from the rest of the bank, with a distinctive culture and operating practices that are radically different. The office setup is casual, designed to blend in with other businesses in the area, and has a very different feel to the bank's other offices. This has allowed access to talent that would otherwise be unlikely to choose to work for a large, formal organisation such as a global bank. The unit is also not connected to corporate systems – this was a deliberate choice to minimise set-up costs and reduce controls by avoiding any possibility of the bank's data being transferred to the unit.

Case Notes

Vodafone has recognised the increasingly global nature of its business and the market requirement for integration and cost efficiency. It has gradually moved leadership for product, service and operational innovation into central groups that are segmented by consumer and enterprise customers. Innovative approaches like new pricing plans would be designed centrally and all markets expected to adopt them. On the other hand, it also maintains an emphasis on local markets having responsibility to address local needs. It has a process for disseminating ideas that originate in particular markets but have applicability in others. A new text messaging payment capability (M-Pesa) that originated in Kenya is now being adopted by other markets with similar consumer needs. The CEO from Kenya moved to work in the centre, connecting with champions in local markets to disseminate the approach globally.

"One of the challenges for a unit such as ours [an innovation unit in a global bank] is to strike the right balance between being true to the corporation and being a start-up entity that's trying to be 'out there' for the bank." **Todd Schofield, Managing Director, SC Studios at Standard Chartered Bank**

Case Notes (continued)

Thomson Reuters has a three-pronged approach to innovation. It operates 4 business units focused on particular customer segments: Financial Services and Risk, Legal, Tax and Accounting, and IP and Science. Because customers in each segment have very different needs, content and service innovation is largely concentrated within the business units. However, the company finds it is necessary for the corporate centre to spearhead innovation in areas where there is commonality across business units, for example developing mobile technology platforms and analytics and visualisation technology. The centre also takes leadership in identifying 'white spaces' for innovation and market expansion. The company recently added a Global Growth unit (GGO) to accelerate growth in emerging nations. It is tasked with finding innovative approaches to doing business in these lower GDP markets that have different needs and capabilities than western nations. As described in Chapter 4, GGO has not been set up as an ambidextrous unit, and the company is still grappling with the governance issues and relationships between GGO and the four customer business units that would enable this unit to pursue innovative approaches.

The principle adopted in establishing the unit was to avoid any unnecessary bureaucracy that might reduce the unit's agility, for example formal annual performance reviews that might put off potential hires. The Studios have a very small number of permanent staff, but can scale up quickly by bringing together networks of collaborators. The unit is sponsored by the bank's CIO, who provides 'air cover' from many of the bank's formal processes. Although it is afforded a high degree of autonomy, it is also highly visible to the bank's Executive Team, who recently spent several days there.

Todd Schofield, who heads the unit, finds that there is a fine line to be drawn between being part of the bank and being separate, and this can lead to tensions. It can be difficult for the Studios to interpret the bank's priorities and understand the nuances of different clients and markets. The success of the operation is dependent on the links and relationships between the Studios and the rest of the bank. Yet success is also dependent on separation.

Examples of the Studios' outputs include an enterprise 'app' developed as a platform for providing research data to the bank's corporate clients. Apple have used this as a case study to promote how their products can be used for enterprise mobility and feature a video on their website at www.apple.com/iphone/business/profiles/standard-chartered/. Another example is a 'big data' application built together with a data management company, which helps the bank predict default risk and reduce fraud. Over the next few years, Schofield anticipates that the unit will develop into more of a full-purpose innovation centre, developing products and services on behalf of the bank.

The Ambidextrous Organisation

The 'ambidextrous organisation' (described in Chapter 4) is a way for large organisations to emulate smaller, more nimble businesses. In ambidextrous organisations, 'breakthrough objectives [are] organised as structurally independent units, each having its own processes, structures and cultures but integrated into the existing senior management hierarchy.' (O'Reilly & Tushman, 2004). A combination of tight connection to executive sponsors and organisation separation allows units to share important resources with traditional businesses. At the same time it allows distinctive cultures, processes and structures to develop and to protect the business from being stifled by 'business as usual'.

Ambidextrous innovation units are unencumbered by the norms and challenges of central R&D units, traditionally governed by extensive corporate processes for vetting, evaluating and prioritising new ideas. They aim to be fast, agile, heavily networked and able to quickly scale up and down. Yet the strategic connection to the business is critical for the corporation to derive value from the unit's work, and for it to influence the key decision makers who will embed the innovations in their operating systems. An example is SC Studios, Standard Chartered's innovation unit described above.

"Ambidextrous organizations operate effectively in both slowly changing traditional businesses that require efficiency and businesses requiring transformational change and innovation."
Lawler and Worley, 2011

Telefonica set up a new division, Telefonica Digital, to exploit digital opportunities and drive future growth. Digital was set up to use the best of the parent organisation while maintaining enough flexibility to develop new businesses without being stifled by the typical corporate processes of a large multinational. The division has a distinct culture, reinforced by separate policies in areas such as reward, KPI setting and job grades. The advantages of corporate scale are exploited in other areas such as corporate procurement, strategy and planning.

In the early 2000s, **IBM's** new business launches were failing because they were saddled with the same earnings expectations as established legacy businesses. When short-term targets were not met, budgets were withdrawn. New ventures were not attracting the company's best talent. Due to their high failure rate, people preferred the legacy business rather than taking a chance on a new venture. This dilemma was resolved by a turnaround strategy that involved:

- Developing new management processes to nurture emerging business opportunities.
- A new structure dividing responsibility for a venture's success between the corporate strategy office and a 'host' division, with a senior executive from the latter assigned to the new business.
- Initial funding provided from a corporate budget, with the host increasingly taking on financial responsibility as the venture matured.
- Group Finance made sure the host divisions were investing in their ventures and not starving them of funds to achieve short-term financial targets.
- Top talent was encouraged to take on roles in new ventures by giving them visibility and access to the senior leadership team.

In the first five years, of 25 new business launches, 22 were successful and delivered \$15bn of annual revenues (Source: Hamel, 2007).

What is striking about the IBM design solution is that it involved changes to many aspects of the organisation, including:

- changes to governance processes, including financial investment and performance management processes;
- cross-functional and multi-level involvement; and
- clear executive leadership in developing an ambidextrous capability to separate yet integrate the firm's core businesses with the new ventures.

The Virtual Organisation - Outsourcing and Crowdsourcing

The rise of outsourcing has prompted many organisations to consider what are core and non-core operations, with anything non-core being outsourced. As a result, many organisations are becoming more 'virtual' with an ever smaller set of activities done in-house. Non-core tasks are delivered by a network of service providers – often based offshore – that do everything else.

Open-Networking and Crowdsourcing

Many companies are using more of an open-network or crowdsourcing approach, calling on a large population of possible providers to carry out work as needed. This is often through online communities that are external to the organisation. These approaches allow new, ultra-lean organisations to be established, with a very small core of key internal functions, supported by freelancers or outsource providers. Two examples are:

Apple employs 63,000 direct employees worldwide and 700,000 working for contractors producing parts and assembling products in Asia. The decision to offshore was motivated less by cost than by flexible availability of skilled workers in large numbers. In markets such as China, it is possible to engage large pools of workers in very short timescales to meet production demands – flexing up and down in a way that is not possible in markets such as the US.

Arise is a virtual business process outsourcing provider, with an unusual model. Its services are delivered by 26,000 Independent Business Owners (IBOs), all of whom work from home and are self-employed. The firm itself has just 250 direct employees working in IT, telephony, sales and marketing. The IBO model allows resources to be adjusted quickly for peak demand – one client flexed resources up and down by 300% in a 1.5 hour period. The company also finds that higher productivity can be achieved through the virtual model. Traditional call centres typically lose 40%-50% of productive time through breaks, holidays, training, etc, whereas Arise has reduced this to, typically, 25%-30% although this can be as low as 10%.

"Agility is ... a cultivated capability that enables an organization to respond in a timely, effective, and sustainable way when changing circumstances require it." **Williams, Worley and Lawler, 2013**

For some companies this implies having contracts with larger vendors who develop and manage a capability such as back-office processing, customer call centres, or integrated supply chain operations. The Toyota networked eco-system described in Chapter 5 is an example of this approach.

6.5

Agility and Sustainable Effectiveness

Of late, attention is beginning to shift from solely designing for high performance and competitiveness – which had come to be defined based on quarterly and yearly earnings and growth--to building in the capability for long term effectiveness. In part this reflects the complex and dynamic nature of the global economy.

Research at CEO has found a strong relationship between agility and sustainable effectiveness. It has also found that implementing sustainability strategies entails significant change in organisation design.

Agility

In Chapter 1 we observed that organisation design is evolving towards an agility model – capable of flexible reconfiguration and adjustment to the dynamic challenges for growth and sustainable effectiveness in today's world. Chris Worley and colleagues at CEO studied what made some large organisations achieve consistently superior financial performance relative to their peers. They reviewed the performance of 243 large firms in 17 industries over 30 years from 1979 to 2009. The common factor they found among those that maintained high levels of performance even when faced with significant business change and competition, was agility – the ability to adapt and change more quickly and reliably than their competitors. 'Today, when every industry faces turbulent change as a matter of course, a company's agility becomes the difference between sustaining performance and falling behind.'

(Source: Williams, Worley and Lawler, 2013)

The study identified four management 'routines' that distinguished high performing organisations from their peers, which are set out in detail in Chapter 1. There are a number of implications that arise from this study:

- The way in which agile companies develop strategy is different. It is underpinned by a clear sense of mission and purpose which does not change over time, but is flexible enough to adapt to changing circumstances.
- The degree of external focus and the level of communication required is extremely difficult for politicised, inwardly-focused organisations to achieve.
- To enable the amount of prototyping and testing required, agile companies cannot be 'lean and mean' in all parts of their business. They need to build in some slack to allow for rapid deployment of resources to pursue opportunities, without jeopardising ongoing operations.

"Sustainable Development meets the needs of the present without compromising the ability of future generations to meet their own needs." (**Brundtland Commission, 1983**)

- Change management in agile organisations is not an 'event' or 'programme', but an inherent capability which is deployed every day.
- The study found that it is the whole system of operating the four routines together that marks out high performers. Few organisations currently have the management sophistication required to orchestrate all of these practices over a sustained period.

Sustainability

Agility research emphasises the centrality of organisational identity and values which serve as a 'compass' to orient behaviours in the organisation while enabling continual change. The sustainability movement goes further in this direction by broadening the firm's purpose to include impact on the health of the social and natural environments, and by extending the time-frame of consideration to include unborn generations. A fundamental recognition driving these companies is that they can no longer consider themselves separate from the eco-systems in which they exist, and that their own future depends on the sustainability of these eco-systems.

Designing for sustainability entails many design options mentioned throughout this report as necessary responses to complexity:

- Network and other lateral forms of organisation, in this case with processes and projects that extend into a broader system of the community and include multiple stakeholders such as NGO's, governments, and other industry participants.
- New forms of governance, such as through multi-stakeholder and multi-corporation voluntary processes that generate standards and shared goals to guide broad, systemic change.

See the column for examples.

Maintaining a successful business model while simultaneously developing and commercialising new opportunities is a significant challenge. It is made all the more difficult today by the competitive pressures and pace of change faced by firms in all sectors. It is not surprising that organisations are starting to focus on agility as a key capability. Furthermore, given the systemic nature of many of the challenges companies are dealing with, including fragility of the financial system, the natural environment, and stakeholder concerns about social justice, we can expect that new approaches geared to deal with such complex problems will also be an increasing focus for many companies.

HR has a key role to play in designing the organisation to be flexible and agile to meet these challenges. In the next chapter, we explore the implications for the HR function of emerging practices in organisation design.

Organising for Sustainability

Examples of networks extending into the broader community:

Cleveland Clinic's participation in a broad network of stakeholders activated by the City of Cleveland to revitalise the local food industry, enhance the economic well-being of Cleveland, and deliver healthy food to local citizens and to the various food services for employees, visitors and patients in the medical system.

CIMCAW: (Continuous Improvement in the Central American Workplace), in which clothing buyers such as Gap, Walmart and Timberland partner with local manufacturers and NGO's to develop local capacity to reach international labour standards and improve competitiveness.

Examples of governance through voluntary agreements:

International Cyanide Management Code for the Manufacture, Transport, and Use of Cyanide in the Production of Gold was developed by a multi-stakeholder Steering Committee under the guidance of the United Nations Environmental Program (UNEP) and the International Council on Metals and the Environment (ICME).

The Global Reporting Initiative (GRI), a widely used reporting framework developed through a consensual, multi-stakeholder process.

HR IMPLICATIONS AND CONCLUSION

7

HR IMPLICATIONS AND CONCLUSION

Topics covered	Introduction	
7.1 A New Style of Leadership	80	In this chapter, we consider what emerging organisational design approaches mean for HR. HR has the opportunity to add value to the organisation by helping lead the continuous redesign that accompanies changing strategies and market requirements. In addition, HR should be expected to find innovative approaches to the People element of the Star Model in order to bring the organisation's people management practices into alignment with the change in the operating models of today's organisations. We explore the implications for leadership development, talent and change management, and HR's role in organisation design.
7.2 Implications for Talent Management and Resourcing	81	
7.3 HR's role in developing 'hard' and 'soft' aspects of the organisation	82	
7.4 Change management	84	
7.5 Conclusion	85	

"The long-term human resources role is to build social capital by creating richly connected interpersonal networks across the organisation." **Galbraith, 2000**

Perhaps HR should play a leading role in organisation design, but in practice we find this is not always the case. The structure is often determined by the CEO, Executive Team or even external strategy consultants. HR may simply be given a design to implement. Organisation design is a complex and difficult discipline requiring strategic insight, business understanding, and intellectual rigour, which does not always play to HR's strengths. Ideally, HR professionals are integral to – or may even take the lead on – shaping the organisation. However, regardless of HR's role in developing the design, HR needs to help the organisation make sense of the implications arising from different design choices, and ensure people-related solutions are crafted to suit the particular requirements of the organisation.

Current and emerging trends in organisation design have broad implications for the HR function. We explore these here.

7.1

A New Style of Leadership

Many of the themes highlighted throughout this report have profound implications for the skills required of leaders in complex, multi-dimensional organisations. The move away from hierarchical structures towards more collaborative, network-based approaches, and the increased significance of getting work done through the 'lateral organisation', means old-style command and control management is becoming outdated. This is particularly true as information is no longer concentrated at the top of the hierarchy, and good quality data is distributed throughout the organisation. This allows data-based decisions to be made closest to customers, and decisions can be devolved more easily.

The following characteristics are increasingly required of leaders in today's organisations:

- In the same way that organisations need to be agile, the routines of agility described in Chapter 1, also apply to individual leaders. Organisations that practice these routines were found to achieve consistently higher performance than the norm over a sustained period. Specific skills for leaders include:
 - External focus – picking up on trends in the business environment that may impact the organisation's future and responding rapidly.
 - Flexibility in the face of constant change. Leaders need to be prepared to change tack and reconfigure resources quickly.
 - Creating structures that allow feedback to be gathered constantly from the company's environment and where solutions can be rapidly developed, tested and deployed.
 - Dealing with the ambiguity that results when conflicting needs of different parts of the organisation create tensions between what is good for individual units and what is best for the organisation as a whole.

"Leadership must increasingly be ambidextrous to balance both the demands for optimization while ...creating the resources and time for exploration and experimentation" **Winby, 2011**

- o Delegating authority sufficiently low in the organisation so that informed decisions can be made at the front-line without having to revert back up the hierarchy.
- o Encouraging and enabling collaboration across the dimensions of the organisation.
- o Defining and building on shared values to motivate and inspire others around a shared sense of purpose.

Ambidextrous organisations, which combine units focused on optimising performance of the core business with separate organisations responsible for developing innovative business opportunities, also require ambidextrous leadership. This means leaders who understand the different requirements of each type of unit, and who can provide the resources, support and encouragement to emerging businesses while maximising performance of core operations. A key skill is the ability to view the whole picture of what the organisation is looking to achieve from a strategic perspective, and adapt accordingly.

The different skills and characteristics required of leaders in today's organisations clearly have a deep impact on leadership development activities, and talent management. HR may need to rethink the criteria used for recruiting and developing talent, and selecting leaders. This is discussed further in the next section.

7.2

Implications for Talent Management and Resourcing

One of the HR function's key deliverables is to help the organisation source and develop talent both for effective current and future operations. Many of the developments outlined in this report present opportunities to tap new sources of talent, or mean HR may need to modify its practices:

- New approaches to secure talent such as through building a networked organisation, open innovation, and crowdsourcing allow firms to tap into external sources of talent offering emerging knowledge, specialists skills and the capacity to scale up and down without having to hire permanent staff. HR needs to be aware of crowdsourcing networks such as oDesk, or open innovation approaches such as Procter & Gamble's Connect + Develop initiative described in Chapter 6, and consider how such approaches may be deployed in their own organisation.
- Given its role in acquiring new talent for the business, HR should be well placed to scan the environment for opportunities to develop networks with external players to plug gaps in the organisation, to develop innovative employment relationships, or to achieve efficiencies through outsourcing.

"One of the areas where we are grappling with issues of centralisation versus decentralisation is in compensation. How do you reward people for overall corporate results while incentivising people appropriately in businesses with different growth rates?" **Mark Sandham, SVP, Organizational Effectiveness and HR Operations, Thomson Reuters**

Skills for working in complex organisations

Contemporary organisation designs are characterised by complexity and working laterally across multiple dimensions. Particular skills are needed to work successfully in this environment:

- Strong collaborative, partnering and group interpersonal skills;
- Skills in handling the tensions and conflict inherent in complex, matrixed organisations;
- Ability to handle rapid change and work effectively in dynamic environments;
- Technology and media savvy;
- Ability to interpret and analyse complex information at speed; and
- External orientation and ability to assemble networks of collaborators from within and outside the organisation.

It may be necessary to rethink criteria for selecting and developing staff to reflect increasing organisational complexity. For example, Standard Chartered Bank has explicitly built the ability to work within a matrix structure and collaborate across geographical and organisational boundaries into their recruitment criteria.

- External networks also enable organisations to tap into knowledge, expertise and ideas from outside the firm, offering new avenues to develop and commercialise innovative products and services.
- HR also has a key role to play in developing internal talent networks. Our research shows that organisations are becoming ever more complex, and connections between disparate parts of the business are increasingly difficult to maintain through traditional approaches that rely on a well-functioning hierarchy. At the same time, the rise in communications technology such as social media and sharing technology makes it easier to connect virtually and laterally. We emphasise the importance of lateral networks and processes throughout this report. We find that HR can significantly add value by helping different parts of the business make connections and identify and share talent across the organisation. This is exemplified by Associated British Foods. One of the principal purposes of the central HR function is to act as a talent broker on behalf of the company's business units, making connections that individual businesses would find extremely difficult to do on their own.
- More fluid structures, increased cross-functional working and the pace of organisation change mean that resources often need to be redeployed at pace. BAE Systems has found that, as its business becomes more international, a key skill for HR is the ability to reassign resources quickly from one part of the organisation to another, when a large project or contract comes up elsewhere. This requires rethinking many aspects of the company's HR policies and approaches, including career management, recruitment, and employment contracts.
- HR needs to re-think the skills and capabilities needed for success in a dynamic, fast-changing environment, and update recruitment criteria, and development and competency frameworks, to reflect this (see the column). Populating organisations with talent that can successfully navigate complexity is a daunting challenge.

7.3

HR's role in developing 'hard' and 'soft' aspects of the organisation

Throughout this report we have highlighted how organisation design combines 'hard' and 'soft' features. 'Hard' aspects include the formal hierarchy, governance mechanisms and formal, cross-functional processes that align the many diverse elements of the organisation with strategy and operational requirements. We have highlighted the shift in emphasis from vertical to lateral connection across the dimensions of the organisation. 'Soft' factors cover shared frameworks, beliefs and values, and the informal networks that allow knowledge to be shared across the organisation. The table below shows areas where HR can contribute to developing each of these aspects of the organisation. Change in each of these areas is underpinned by a need for good change management, which is discussed further in the following section.

HR's contribution to 'hard' aspects of organisation design

- **Developing and implementing design options.** Given the breadth of its connections across the organisation and its role in helping enhance performance, HR is often well-placed to diagnose the current structure and come up with options for developing the design to improve performance or achieve strategic objectives.

Particular issues that HR can help resolve include:

- Is power appropriately distributed throughout the organisation? Are the accountabilities and performance measures assigned to teams and individuals appropriate for what the design needs to achieve? Do people have conflicting, unworkable accountabilities?
- Does the matrix work as it should? Standard Chartered tests whether the matrix has evolved too close to the front line, and takes action where this gets in the way of customer service.
- Achieving a balance between simplification to make the design workable, and over-simplification. The design needs to be as complex as the strategy it enables.
- **Developing 'lateral' mechanisms.** Lateral mechanisms such as cross-dimensional processes and teams help the organisation deal with the complexity of its multiple dimensions. An understanding of how these lateral mechanisms can be deployed is an essential element of HR's organisation design toolkit.
- **Aligning people policies, structure and strategy.** As Galbraith's STAR model shows (see Chapter 1), structure is only one piece of the organisation jigsaw. HR has a key role in making sure that HR processes support the design objectives. The structure of the HR function also needs to be aligned to and consistent with the rest of the organisation.
- **Reward.** Many organisations struggle to develop incentive processes that reward the right behaviours, and rewards can often lead to unintended consequences. A particular challenge is achieving a balance between incentivising work that contributes to the organisation as a whole, with what benefits individual business units. The diversity of organisational units is increasing, and approaches that assume 'one size fits all' no longer work. Thomson Reuters is considering the reward system implications of business units with starkly different growth potential.
- **Supporting new organisation forms.** Moving to new organisation forms such as virtual or network organisations requires different ways of working, and HR may need to provide support to assist the transition. For example, Rolls Royce has developed a role within HR to share the company's expertise in developing and managing joint ventures across the company's many JVs.

"When the organisation structure changes in a fundamental way, it's not going to work effectively unless the distribution of power and interfaces are properly defined. It takes a long time for people to let go of the memory of how they used to work together, and often they need support to make that behaviour shift." **Mandy Bromley, Global Organisation Effectiveness Director, Unilever**

Case Notes

Unilever has been on a journey over several years from an organisation where power lay with the country operating units, to a regional structure supporting strong global brands and an integrated global supply chain. The new operating model has changed the interfaces between different parts of the group, and has challenged the ways in which different units need to behave towards each other. Collaboration is a key requirement in the new model. The company found power relationships did not automatically change in the new organisation, collaboration was not always forthcoming, and the model was not working as it should. HR interventions have been developed that help organisational units redesign interfaces and help teams understand what has changed and how they need to relate to each other differently. The interfaces between global brand development and brand building teams in local markets have been a particular area of focus.

HR facilitates two-day 'Interface Workshops', pulling together senior managers from groups in conflict. The workshops' purpose is to identify and resolve grey areas between the teams. The events provide a space for honest conversations between key stakeholders to identify and work through issues quickly. Frequent issues include:

HR's contribution to 'soft' aspects of organisation design

- **Fostering networks.** In Chapter 5 we noted the importance of developing networks across divergent organisation units for knowledge sharing and learning. HR can help the organisation learn how to build and support such networks. ABF has a significant initiative underway to strengthen its network capability.
- **Relationship reconfiguration.** A change in organisation design can have a fundamental effect on the interfaces between different organisational groups. This often means that units need to work together in different ways, and behaviours need to change. HR can lead process interventions to 'reset' the relationships between groups that are in conflict. See the column for an example.
- **Fostering shared beliefs and values.** Throughout this report we highlight the role that shared values and beliefs can play in providing the 'glue' that links together divergent parts of the organisation. Many HR functions are involved in helping define and embed values to unite the organisation around a common purpose and identity. Barclays, for example, has been working to clarify and strengthen commitment to its values in the wake of the recent financial crisis.
- **Communication.** As organisations grow in size, reach and complexity, it becomes more difficult for individuals to identify how their individual contribution relates to the overall goals of the whole. HR can ensure that suitable mechanisms are in place for ongoing dialogue between levels in the hierarchy and across the dimensions of the organisation. New technology such as enterprise social media is making this easier to achieve. HR can help the organisation adopt and effectively use emerging communication approaches.

7.4

Change management

One of the areas where HR can make a significant contribution is in managing change. However, today's highly-interconnected, complex organisations mean traditional approaches to change management, involving large-scale programmes and lengthy implementation schedules, are no longer feasible. Change needs to develop from being a one-off, highly disruptive transformation, to being a continuous way of life. Organisations need to be equipped to change as quickly as – if not faster than – their environment, and in most industries, the pace of change is speeding up.

"With organisation design, it's not a one-off. We are constantly redesigning – it doesn't ever stand still." **Andrew Strowger, Global Performance, Engagement and OD Director, Unilever**

This means the capacity to change needs to be built into the organisation design. New organisation forms such as network and virtual organisations described in Chapter 1 and lateral networks and processes make it easier to refocus the organisation without having to restructure every time. HR policies and practices need to enable change to happen easily, rather than creating unnecessary bureaucracy, rigid systems, and inflexible workforces.

One of the recurring themes of CRF and CEO's research is that HR has to develop a more 'strategic' approach. A critical element of being 'strategic' is the ability to translate business strategy into a functioning organisation. Companies such as Vodafone, Thomson-Reuters, Intertek and Serco describe a 'journey' entailing ongoing change to bring the organisation into alignment with the new realities they are facing and their evolving strategies.

Helping organisations continually change and adapt is an area where HR should excel. The degree to which the function can contribute to this critical business process depends on:

- having a deep understanding of the organisation's strategy and business model, the competitive environment and internal and external threats and opportunities;
- having expertise in organisation design and effectiveness;
- envisioning new organisational approaches to deal with strategic challenges and opportunities; and
- leading ongoing organisation design to ensure activities and deliverables are aligned to business purposes.

This presents both a challenge and an opportunity for HR.

7.5 Conclusion

- Organisation design is one of the fundamental building blocks for developing an effective, high performing organisation.
- It is a complex and difficult subject, with no 'black or white' answers in terms of what is right for any particular business.
- Organisation design work needs to start at the top of the organisation, with strategy driving design choices and solutions.
- This is a potential area for HR to excel, but requires the highest level of skills. A blend of strategic, organisational effectiveness and interpersonal capabilities is required, but this is a rare combination and difficult to develop.
- The importance of organisation design as a strategic consideration for companies, is likely to continue to increase in the future.

Case Notes (continued)

- Lack of clarity and common purpose
- Individual KPIs do not add up to the overall objective
- Lack of trust between teams
- Conflict avoidance behaviour

During the workshops, HR helps the teams design new interfaces together, and develop new behavioural skills required for collaboration. There is also a follow up some months after the event to check the teams have not reverted to old ways.

As Unilever found, simply designing a new organisation and implementing new structures and processes is insufficient. People need help to deal with the changes, and time to 'let go' of old ways of working, to un-learn old habits and develop new behaviours. The organisation also needs an ongoing assessment process to validate that culture and behaviours are developing in alignment with the new principles.

APPENDIX

8

THE ADVANTAGES AND LIMITATIONS OF DIFFERENT ORGANISATION DIMENSIONS

Dimension	Application	Limitations
Function	<ul style="list-style-type: none"> Allows for specialisation and knowledge transfer. Resources can be leveraged and shared across units. Promotes standardisation and reduces duplication. 	<ul style="list-style-type: none"> Works best when there is a single product or service line. Functional boundaries can inhibit cross-functional processes such as new product development. Less able to respond quickly to changing customer needs. Often more appropriate for simple or smaller businesses.
Geography	<ul style="list-style-type: none"> Allows deep insight to be developed into market dynamics and customer needs. Products/services can be adapted to local needs. Minimises distribution costs. Suitable where operations need to be located close to the customer or operate just-in-time. 	<ul style="list-style-type: none"> Duplication of activities; loss of economies of scale. Difficult to develop a cohesive organisation culture. Global customers have multiple interfaces to the business.
Business unit/product line	<ul style="list-style-type: none"> Allows for rapid product development and innovation. Products can be customised more easily. Products can be more easily differentiated by market segment. 	<ul style="list-style-type: none"> Duplication of resources; loss of economies of scale. Missed opportunities for sharing across product lines. Multiple interfaces with the customer.
Customer	<ul style="list-style-type: none"> Coordinating the needs of global customers. Single customer interface. Develop competitive advantage through customer knowledge and providing high quality customer service. Products/services can be customised to customer needs. 	<ul style="list-style-type: none"> Duplication of activities; loss of economies of scale. Missed opportunities for sharing between different customer groups.
Process	<ul style="list-style-type: none"> Allows for reduction in cycle times and improvement in quality, particularly across traditional organisation boundaries. Increased accountability for end results. Reduce costs through reducing inventory and working capital. 	<ul style="list-style-type: none"> Customisation can be difficult. Less suitable where cycle times are long or specialist expertise is needed. Benefits of process organisation can be achieved through the lateral organisation rather than building a formal process structure.

Defining Key Accountabilities

Brian Dive, in his book 'The Accountable Leader' describes the features of what he calls the 'accountable organisation'. The basic premise is that a manager should only make decisions that cannot be taken by those reporting to him, not because they are not permitted to take those decisions, but because they do not have the knowledge, skill and/or experience to do so. Dive considers that:

- Each level in the hierarchy should make decisions that are different from and add value to the level below, and no level in the hierarchy should make decisions that can be made at a lower level.
- The responsibilities of individual jobs need to be clearly defined and understood and must not overlap.
- Each person should know what they should be doing and how that relates to and furthers the efforts of people they work with.

Dive considers that 'for an effective organisation structure, there must be accountable space between the individuals above the manager and those below; otherwise ... two or more layers of people are working in the same decision-making zone or level of accountability.'

REFERENCES AND FURTHER READING

9

REFERENCES AND FURTHER READING

- Brown, B, Sikes, J, and Willmott, P, *Bullish on Digital: McKinsey Global Survey Results*, McKinsey & Company, August 2013.
- Cross, R. and Thomas, R.J., *Driving Results Through Social Networks: How Top Organizations Leverage Networks for Performance and Growth*, San Francisco: Jossey Bass. 2009.
- Dive, B, *The Accountable Leader: Developing effective leadership through managerial accountability*, Kogan Page, London, 2008
- Doz Y.; *The Need for Speed: Fostering Strategic Agility for Renewed Growth*, in *Leading Open Innovation* (Anne Sigismund Huff, Kathrin M. Moslein and Ralf Reichwald (editors). Cambridge, Mass; The MIT Press. 2013.
- Eisenmann, T. R. and Herman, K. *Harvard Business School Case 9-806-105, Google, Inc.* February 21, 2006.
- Galbraith, J, *Designing the Global Corporation*, Jossey Bass, San Francisco, 2000
- Galbraith, J, *Designing Organizations: An executive guide to strategy, structure, and process*, Jossey-Bass, San Francisco, 2002
- Galbraith, J, *Designing Dynamic Organizations: A hands-on guide for leaders at all levels*, Amacom, New York, 2002
- Galbraith, J, *Designing Matrix Organizations that Actually Work: How IBM, Procter & Gamble, and others design for success*, Jossey-Bass, San Francisco, 2009
- Goold, M and Campbell, A, *Designing Effective Organisations: How to create structured networks*, Jossey-Bass, San Francisco, 2002
- Goold, M and Campbell, A, *Do you have a well-designed organization?*, Harvard Business Review, 2002
- Henderson, R. M., & Cockburn, I. M. 1994. *Measuring competence? Exploring firm effects in pharmaceutical research*. *Strategic Management Journal*, 15: 63-84.
- Lackner, T, *Open Innovation at Siemens AG*, in *Leading Open Innovation* (Anne Sigismund Huff, Kathrin M. Moslein and Ralf Reichwald (editors). Cambridge, Mass; The MIT Press. 2013.
- Lawler, E. E., III and Mohrman, S. A. *Creating a Strategic Human Resources Organization: An Assessment of Trends and New Directions*. Palo Alto: Stanford University Press, 2003.
- Lawler, E E III, Worley, C, *Built to Change: How to achieve sustained organizational effectiveness*, Jossey-Bass, San Francisco, 2006
- Lawler, E E III, Worley, C, *Management Reset: Organizing for sustainable effectiveness*, Jossey-Bass, San Francisco, 2011
- Mohrman, S. A., Cohen, S. G., & Mohrman, A. M., Jr., *Designing Team Based Organizations: New Forms for Knowledge Work*. San Francisco: Jossey-Bass, 1995.
- The role of networks in fundamental organizational change: A grounded analysis*, Mohrman, S.A., Tenkasi, R. V., Mohrman A. M., *The Journal of Applied Behavioral Science*; Sep 2003; 39, 3; ABI/INFORM Global
- Mohrman, S. A., *Designing Organizations to Lead with Knowledge*. In T. Cummings (Ed.), *The Handbook of Organization Development* (pp. 519-538). Thousand Oaks, CA: Sage Publications, 2007.
- Mohrman, S.A. and Shani, A.B., and Worley, C. (eds.) *Organizing for Sustainability Series, volumes 1, 2 & 3*. London, England: Emerald Press.
- Sustainability at the Cleveland Clinic: A Network-Based Capability Development Approach*, Mohrman, S. A., Vernon, C. E., and McCracken A, *Building Networks and Partnerships Organizing for Sustainable Effectiveness, Volume 3*, 65-99
- O'Reilly III, C A, and Tushman, M L, *The Ambidextrous Organization*, Harvard Business Review, pp74-81, 2004
- Pearce, F, *Unilever Plans to Double its Turnover while Halving its Environmental Impact*, Daily Telegraph, 23 July 2013
- Piskorski M, and Spadini, A, *HBS Case 9-707-402, Procter & Gamble: Organization 2006 (B)*, 16 November 2007
- Sørensen, C, *Enterprise Mobility: Tiny Technology with Global Impact on Work*, Palgrave, 2011.
- Stanford, N, *The Economist Guide to Organisation Design: Creating high performing and adaptable enterprises*, Profile Books, 2007
- Villarroel, J.A. *Strategic Crowdsourcing: The emergence of online distributed innovation*, in *Leading Open Innovation* (Anne Sigismund Huff, Kathrin M. Moslein and Ralf Reichwald (editors). Cambridge, Mass; The MIT Press. 2013.
- Williams, T, Worley, C and Lawler III, E, *The Agility Factor, Strategy+Business*, Booz & Company, April 15, 2013
- Winby, S, *Adapting to New Realities: The Emergence of Network Organizations and Work Systems*, Sapience Network, 2011
- Wingfield, N, *Microsoft Overhauls, the Apple Way*, New York Times, 11 July 2013. www.nytimes.com/2013/07/12/technology/microsoft-revamps-structure-and-management.html?pagewanted=all
- Worley, C. G., *Organizing for Agile and Sustainable Health Care: The Alegent Health Case*, in Mohrman, S A and Shani, A (eds) *Organizing for Sustainable Healthcare. Volume 2 of the Organizing for Sustainability Series*. London, England: Emerald Press, 2012.

crf

CORPORATE RESEARCH FORUM



CORPORATE RESEARCH FORUM

Corporate Research Forum

One Heddon Street Mayfair London W1B 4BD United Kingdom

T + 44 (0) 20 7470 7104 F + 44 (0) 20 7470 7112

www.crfocus.co.uk enquiries@crforum.co.uk @C_R_Forum