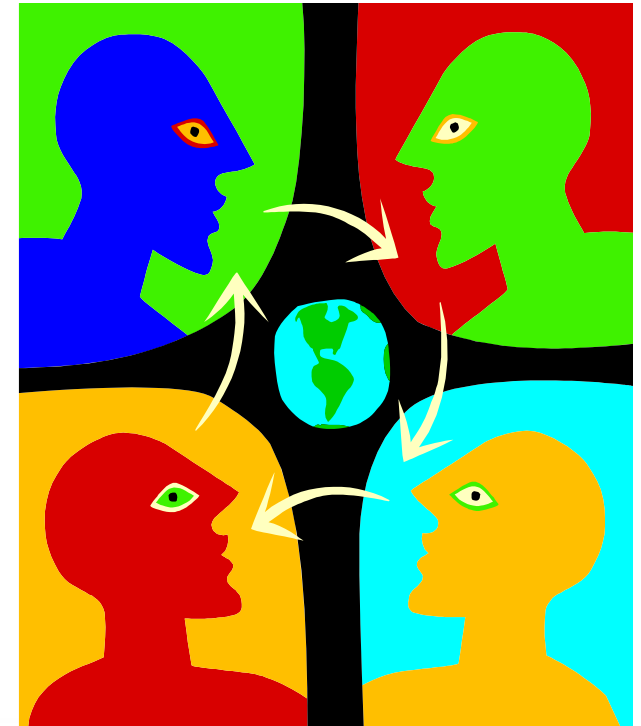


# Organization Design

Too often,  
organizations evolve over time,  
driven more by random situations  
than alignment with strategy.

Change, when made, is often  
piecemeal and creates  
unanticipated consequences.

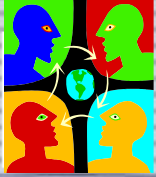


Ross A. Wirth, Ph.D.

<http://www.entarga.com/orgchange>

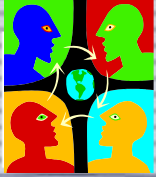
8/23/2007

This is a straw man to jump-start organization discussion. Content and direction is expected to be refined as the dialogue progresses.



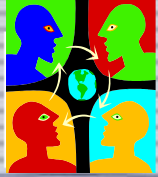
# Likely Outcomes

- Minor design changes (likely & desired outcome)
  - Clarify how value is created by each organization unit
  - Clarify relationships & work flows
  - Clarify accountability & decision-rights
  - Align rewards with desired performance
  - Validate required competencies & development path
  - Define desired culture & leadership style
- Major design changes (less likely, more disruptive)
  - Change reporting relationships
  - Change organization unit boundaries
  - Merge or create new organization units

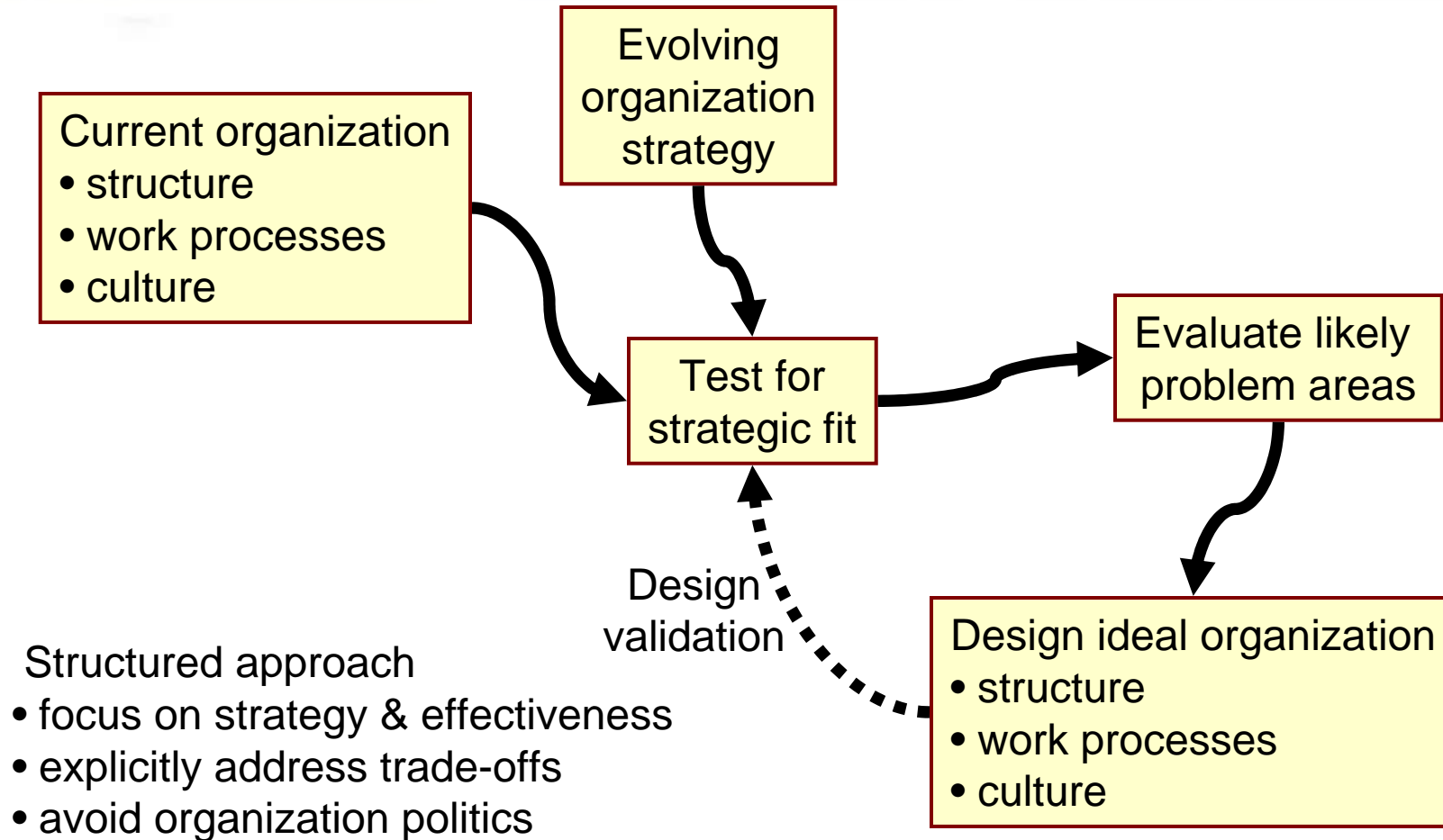


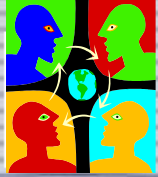
# Organization Alignment

- Vision & Strategy
  - Clarity of goals & decision-making style
- Organization Structure
  - Supports core value chain – clarity of value generation
- Leadership
  - Clear roles, responsibilities, & accountability
- Management Processes
  - Multi-directional communication for process linkage
- Control Systems
  - Performance metrics for accountability & result prediction
- Skills & Knowledge
  - Team environment with distributed competencies



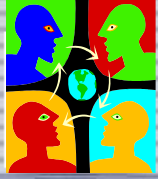
# Organization Design Process





# Competitive Advantages

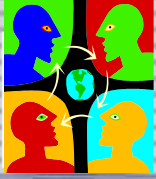
- What is unique?
  - Type of raw materials?
  - Operations excellence as driver of value?
  - Approach to manufacturing or distribution?
  - Market Segments or Channels?
  - Flexible programs oriented toward marketers?



# Key Strategic Thrusts - possibilities

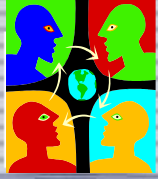
- Focus on core strategic businesses
  - Divest non-strategic assets
  - Sale of production through equity facilities
    - Market protection shifting to value optimization
- Push toward being a low-cost competitor
  - Close control of expenses
  - Inventory management
- Push for high manufacturing utilization
  - Balance marketing sales with production
- Evaluate business strategy for alternate one-off ideas

What fits our situation?



# Design Impact - Strategy

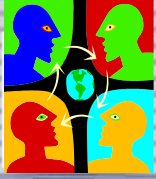
- Transitioning from growth strategy to mature, value chain optimization
- Current organization design
  - Function of mindset established with previous strategy
  - Often using a design of convenience
- Options for Focus going forward
  - Operations – Product – Customer (strategic choice)



## Design Choice – What is our Focus?

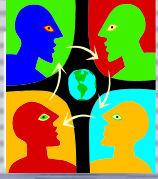
- Operations-Centric
- Customer-Centric
- Product-Centric





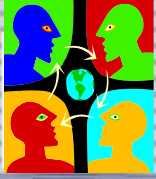
# Operations–centric Focus

- Organizational design for low-cost operations
  - Efficient, reliable processes
    - Standardized, team oriented
  - Focus on supply-chain management
    - Supply–inventory–demand balancing
  - Aligned performance metrics
    - Utilization, unit cost, & quality/consistency
  - Employee competencies
    - Manage volume & scale
    - Tight communication linkages
    - Adept at using technology for efficient control
    - Knowledge sharing



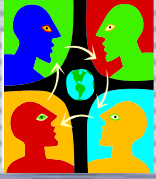
# Customer–centric Focus

- Organizational design for customer leverage
  - Customer-oriented focus on product & service mix
    - Consultative approach to market
      - Customizing a total solution
  - Decisions delegated downward, close to the customer
    - Quick & flexible decision-making process
  - Aligned performance metrics
    - Customer satisfaction, lifetime customer value
  - Employee competencies
    - Relationship management
    - Integrative thinking
    - Care about implementation & follow-up



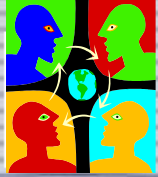
# Product–centric Focus

- Organizational design for product leverage
  - Quick, product line changes
    - Innovation, new development, market creation
    - Emphasis on brand management
  - Focus on developing new ideas
    - Results oriented while risk tolerant
  - Aligned performance metrics
    - Number of new products, % of revenue from “new”
    - Rewards innovation & risk taking
  - Employee competencies
    - Knowledgeable risk takers – achievement oriented
    - Adept at using technology for innovation
    - Knowledge development

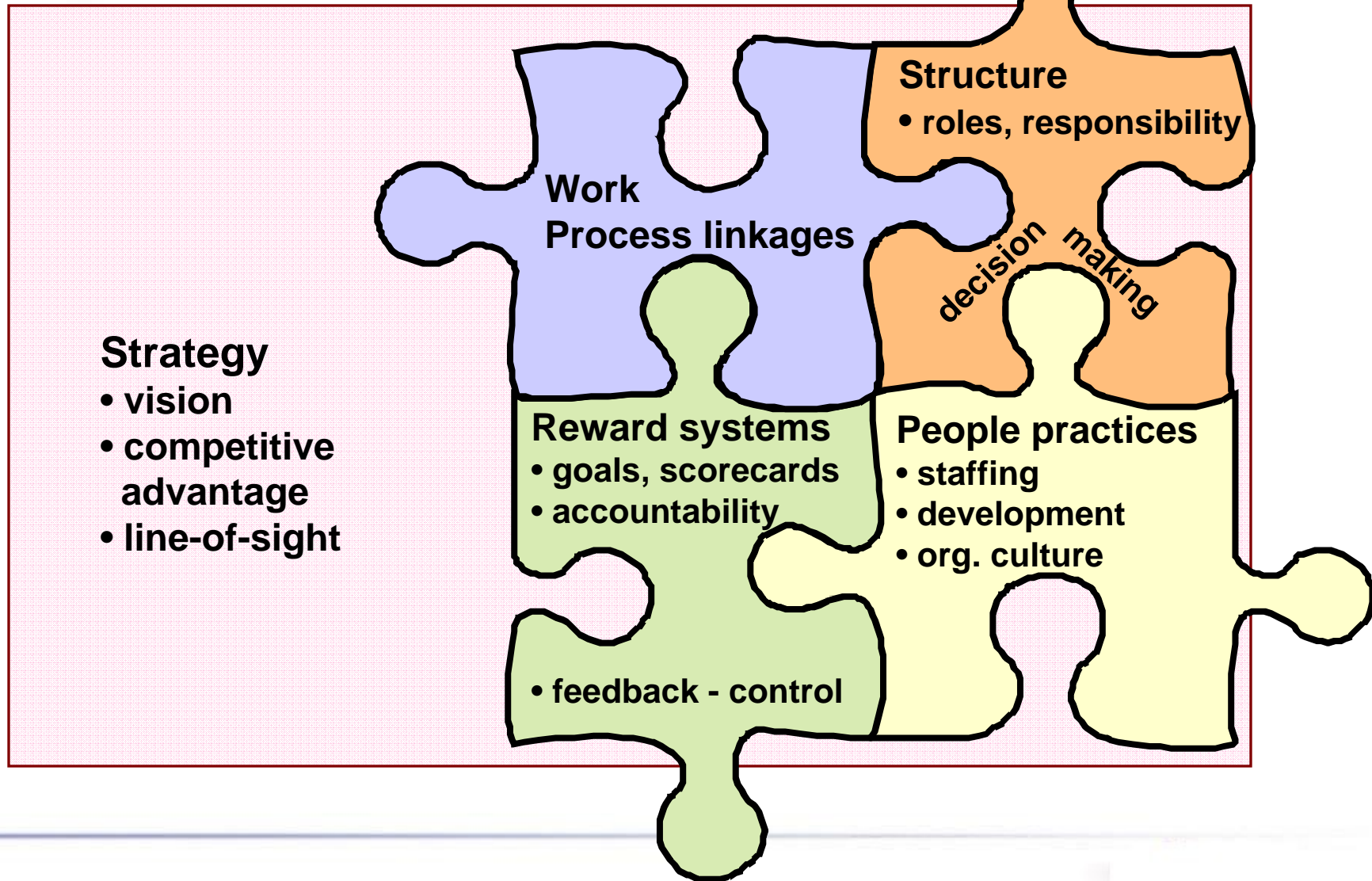


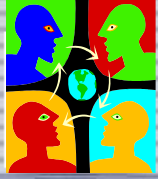
# Organizational Design Focus

- Organization unit boundaries
  - Driven by logical flow of work
  - Sufficient checks & balances for internal control
    - But not too much that it interferes with efficient processes
- Eliminate gap between current state and desired end-state
  - Alignment between Strategy & Operations
  - Structural alignment that supports strategy
  - Cross-boundary collaboration & cooperation
  - Infrastructure (IT, HR, Finance, etc.)
  - Management style & skills
- Limits to the design
  - Nonnegotiable elements of the structure – what are they?
  - Interface points with parent organization and/or key customers
  - Constraints imposed by parent organization or other key stakeholder
  - Roles & functions that must be maintained (regulatory or mandates)
  - Existing organizational culture (time not available for sufficient change)



# Organizational Design Fit

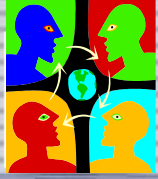




## “Fit” & “Good Design” tests

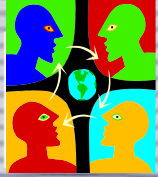
- Fit tests – support organization strategy
  1. Focus on areas of competitive advantage
  2. Provides value up the organization linkages
  3. Reflects employee strength, weakness, & motivation
  4. Recognizes existing constraints
- Good Design tests – address problem areas
  5. Insulates areas needing special cultures
  6. Recognizes linkages likely to be problematic
  7. Verify appropriate controls are in place
  8. Validate value created by each hierarchical level
  9. Verify flexibility to pursue emerging opportunities

**Each item establishes organizational design criteria.**



# Competitively Advantaged

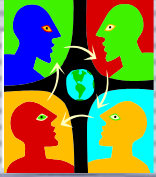
- Core competencies positioned in the organization so they receive sufficient attention
  - Initiatives that focus on emerging opportunities should also be similarly positioned relative to future importance
  - Non-core components should not be distracting
- Management systems that are strategically aligned
  - Tight coupling, but loose enough to prevent positive feedback



# Value to Parent Organization

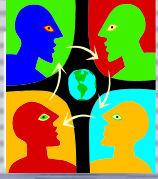
- Clearly defined mission with a distinct value proposition from the perspective of above
  - Organize around value generation
  - Line-of-sight linkages pushed down into the organization





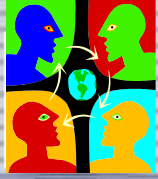
## Leverages Strengths (avoids Weaknesses)

- Organization leverages internal capabilities
  - And avoids requiring capabilities in short supply
- Leaders have a passion for the focus of the organization that reports to them
- Outstanding employees involved in critical relationships including those that are cross-organizational
  - Career paths and developmental programs for these positions
  - Broadens the number of positions on the replacement plan
    - Also impacts retention planning & a planned exit strategy



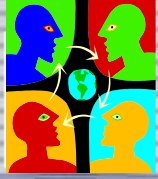
# Recognizes Constraints

- Common limitations to organization performance are:
  - Information Systems
    - Aligned with organizational needs and user friendly tools
  - Organizational Culture
    - (supported with research on high performance cultures)
- Efficient processes are essential requirement
  - All processes: transaction processing through financial reporting
  - On-going opportunity identification & process change
  - Identification & removal of barriers to efficiency



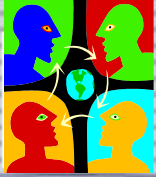
## Protects “Special Cultures”

- The dominant organizational culture can overwhelm local units that require special cultures to be effective
  - Work & think in ways different from the norm
    - High organizational linkage for protection
    - Greater autonomy than might otherwise be granted
    - Specific cultural boundary understood by all involved
      - Unique goals and requirements



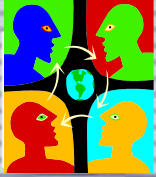
# Problem Linkages – conflicting goals

- Relationships that are problematic due to conflicting goals
  - Best handled through self-managed processes
    - Incentives for collaboration
    - Goal linkage with bi-directional economic exchanges
    - Arbitration for resolving disputes
- Critical inter-unit linkages
  - Sharing knowledge
  - Sharing common resources
    - Shared assets
    - Economies of scale
    - Eliminating duplication of effort
  - Pooling negotiation power
  - Coordinating responses to strategic threat or opportunity
  - Vertical integration to coordinate supply-chain requirements



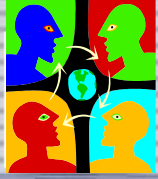
# Necessary & Appropriate Controls

- Clear Accountability with focus on
  - Areas of shared responsibility and high collaboration
  - Areas with no objective outcome or expensive data collection
- Performance metrics for all KPIs
  - KPIs not always clearly link to implementing business strategy
  - Must establish clear accountability, yet be economical to execute
  - Ideally leading indicators with some historic benchmarking
  - Visual dashboard enabling quick triage for action
    - Highlighting of critical information
  - Powered by business warehouse for low maintenance
    - Agreed upon data definitions to describe the business
    - Data linked from different sources for comprehensive view
  - Drill-down analysis for issue isolation



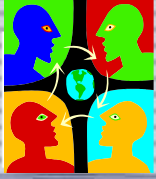
# Value Generated at Each Level

- Each level in the organization hierarchy needs to add value
  - Streamlines decision-making & resource allocation
  - Shortens lines of communication
  - Efficiently resolve organizational conflicts
- Flat organizations are more efficient
  - However, more difficult to do career ladders
- Raises the issue of placement of staff organizations
  - Accountability to client base
  - Concentration of functional expertise
- Matrix organizations sometimes confuse accountability
- New value chain structures becoming more common
  - Back-end product-centric units
  - Front-end customer-centric units
  - Requires strong leadership to coordinate products with services



# Flexibility to Leverage Opportunity

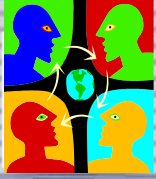
- Fit for the present & adaptive for the future
  - Tested with scenario planning
  - Identify likely roadblocks to change
    - Often in top management with personal loyalties & fiefdoms
    - Tightly integrated units with complex relationships
  - Modify structure to add elements of flexibility, but not if the change would impact present efficiencies



# Organization Design Summary

- Organizational design is iterative & occurring all the time
  - However, it often happens without much thought or holistic design
- Desired outcome is improved strategic alignment of
  - Structure
  - Work processes
  - Culture
- Design process is a mix of dialogue & scenario planning
  - Establishes shared understanding of mission & strategy
  - Evaluates alternatives & likely impact of change

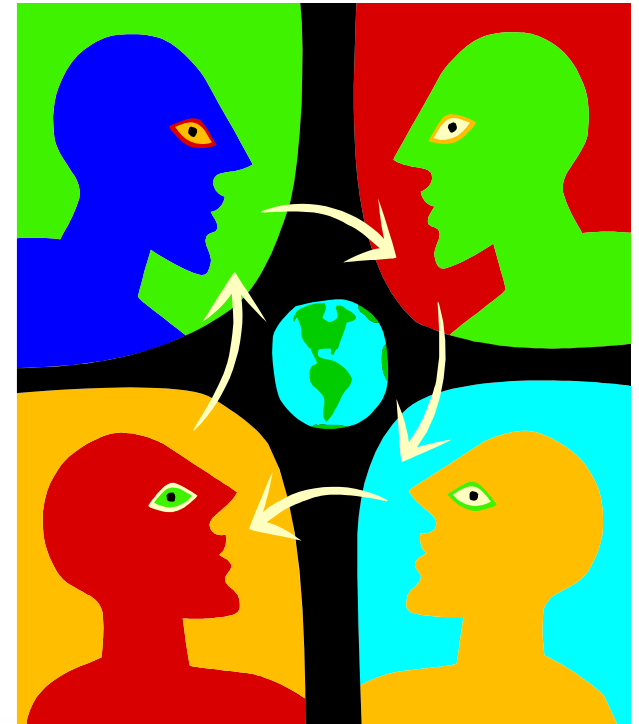


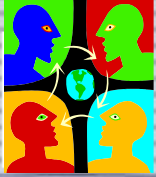


# Organization Design

Too often, organizations evolve over time, driven more by random situations than alignment with strategy.

Change, when made, is often piecemeal and creates unanticipated consequences.





## References

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