



Designing and developing the organization

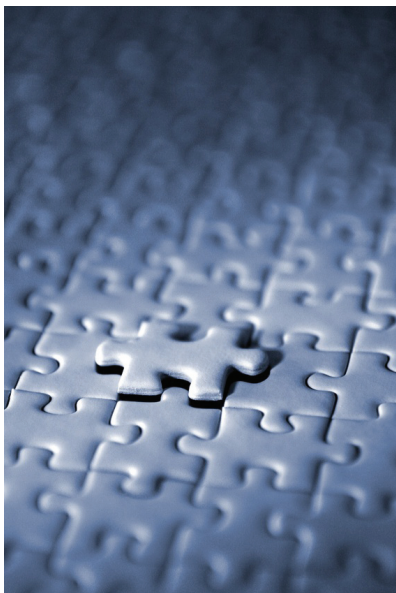
Once business leaders define the company's vision, they must develop an organizational structure to accommodate the strategies that will achieve this vision. Part two of a series on managing & leading people by Jon Minerich, Principal, Oliver Wight Americas, Inc.

Organizational structures evolve over time. What exists today often is the cumulative result of multiple changes made over many years. Therefore, as executives seek to build a more agile organization, they often find themselves shackled to organizational designs which are not in alignment with their selected strategies to achieve the company's vision.

This second article in the managing & leading people series focuses on four key areas of the organizational design process: business maturity, strategy, consistent work practices, and HR policies and procedures. It also describes the procedures and practices necessary to successfully design and develop the new organizational structure.

Step 1: Organizational design must reflect business maturity

The first article of the series discussed leadership maturity and the change in leadership style required by executives as they move from managing to leading a business. Companies, as well, mature over time and evolve as described in the sidebar (Business Maturity Levels).



Business Maturity Levels

1. Disconnected Management Processes

Behavior: lack of strategic orientation; individuals work on events, not processes

Focus: current problems; immersed in developing detail because accurate information is not readily available for decision making

Cultural Impact: unplanned events are common; executives are inconsistent in their actions; reactive and power struggles are common

2. Foundation of Planning & Control

Behavior: good data management practices started, timely & accurate data is available within functional silos--not necessarily across the business; fundamental business processes are in place, are documented and understood

Focus: short- to mid-term planning in place; reactive, short-term execution

Cultural Impact: organization focuses on data integrity; functional organizational structure; fiefdoms may exist

3. Capable Planning & Control

Behavior: consistent work practices exist across all business processes

Focus: medium to long term; good short- to mid-term execution of plans; functional experts exist within functions, ensuring both consistent work practices and performance

Cultural Impact: cross-functional thinking across the business; culture change drives data sharing across all functions; everyone agrees to "One Set of Numbers" to run the business; business performance is at least 95 percent to plan

4. Process Competence

Behavior: all business processes are integrated; strategy is deployed and business performance is directed through a top-level process called Integrated Business Management

Focus: medium- to long-term, end-to-end process thinking; business processes are adapted to changing market requirements

Cultural Impact: velocity and responsiveness are seen as critical business performance metrics; business performance is in the upper quartile of the industry

5. Process Excellence

Behavior: dynamic; learning organization where change is the "way of life"; business processes are fully integrated and mutually supporting

Focus: optimization of the business in pursuit of strategies; continuously searching for opportunities

Cultural Impact: continuous process improvement driven by external environment (customers and benchmarking); business performance is in the upper decile of the industry.

The evolution of the company and its maturity level have a direct impact on the design of its organizational structure. For example, it makes little sense to design and implement end-to-end business processes when there is no control over basic functional areas. Also, many executives do not realize that skipping maturity levels in moving their businesses “forward” can lead to a dramatic failure.

This occurs because the people, processes, and tools are not integrated. Basic organizational disciplines and functional expertise (or for more mature organizations, process expertise) may be missing from the organization. Finally, with the exception of the first level, “Disconnected Management Processes,” the focus, behaviors, and culture shown in the Business Maturity diagram should be at the level required before moving on to the next level.

During this step, the CEO should ask: “Do we understand our current level of business maturity?” Once the CEO and his/her executive team understand this, the next question is: “How does our business maturity level impact our ability to implement our chosen strategies?” If the business maturity level is lower than what is needed to implement the selected strategies, the CEO should re-evaluate the strategies and time-phase the implementation of the strategies to match the organization’s business maturity level.

Step 2: Organizational design must support strategies

Strategies should focus on five key areas of the business: customers; employees; shareholders; supply chain (or service chain in service businesses) and community or environment. Once your strategies have been clearly defined, the CEO should ask: “Is our firm structured and properly staffed to implement our strategies?”

In other words, have we clearly defined processes and information flow;

defined the roles and responsibilities of people working within these functions or processes; and do all of these actions reflect the level of business maturity our strategies demand? If not, the CEO might consider the following to guide the design process:

1. Simplify the organizational structure whenever possible.
 - a. Minimize the number of levels.
 - b. Simplify the reporting relationships.
 - c. Ensure the new design is adaptable to changing business conditions; communicate that change is now the “way of life,” and as the business needs change, so will the organizational structure.
 - d. Educate all employees on the new organizational structure, processes, expected behaviors, and culture to ensure the business maturity level required for your strategic objectives is achieved and sustained.
2. Balance function against process.
 - a. Maintain functional expertise in depth.
 - b. Recognize the process characteristics of work. If your functional processes are solid, consider developing end-to-end business processes focused on the customer (either internal or external). If, however, your business is not ready for end-to-end business processes, improve the performance in all of your functional areas before attempting to develop end-to-end processes.
 - c. Focus on speed, cost, and quality of the function or process. This may require eliminating “sacred cows” or non-value adding activities that exist. In the case of process design, it may also require senior executives to give up control of things they may have historically “owned”.
3. Once the new processes (either functional or end-to-end) are designed, clearly document the lines of authority, communication, and control.
 - a. Define decision rights (who gets to make what decisions and under what circumstances).

- b. Define what type of information is necessary and how will it flow across functions or process steps; describe how it will travel “up and down” the organization.
- c. Define the behaviors you desire for each function or process, and
- d. Define how you will measure process performance, not function.

Some discussion about the design and “ownership” of end-to-end business processes is necessary. Executives sometimes struggle with the implementation of end-to-end business processes because their careers and reputations have been established in functional areas. They have become the experts and “ultimate decision makers” for all things under their functional control.

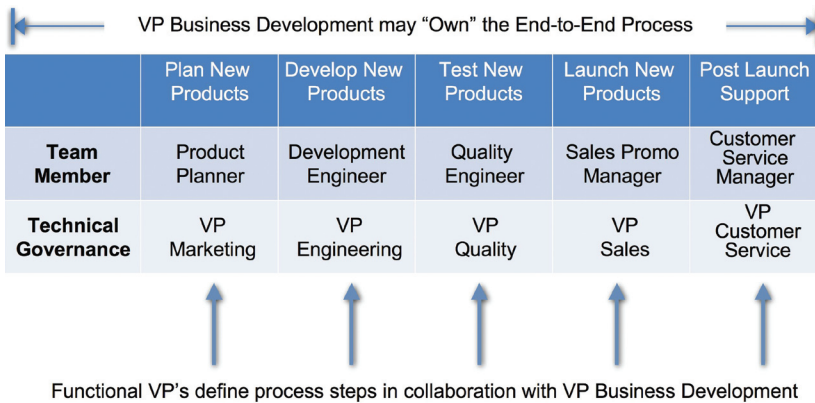
Their roles will change in a process environment. Instead of leading or managing a functional area, they will maintain the title of the subject matter expert (and “ultimate decision maker”) for functional or technical steps in an end-to-end process. They will also continue to be responsible for the development and governance of technical experts in their functional area of expertise across the enterprise. In many ways, the technical aspects of their jobs haven’t changed; only their area of control. The diagram below illustrates a simple, end-to-end process matrix.

A reminder: When considering a move to an end-to-end process organizational structure, CEOs must assure that they are at Business Maturity Level 3, Capable Planning & Control, before attempting to implement this organizational design.

Step 3: Implement consistent work practices

The foundation of functional or process excellence is consistent work practices. A process must work consistently before we can improve it. In fact, this is the foundation of most quality systems, including six sigma.

A common error many CEOs make



Proper staffing and resource planning also is a major issue. Unfortunately, in today's business environment, a new organizational design is often considered synonymous with headcount reduction. However, the redeployment of people should be possible if the organizational structure is designed to support the company's strategies and is aligned with the desired level of business maturity. In either case, proper staffing and allocation of resources is critical to the successful implementation of strategies to achieve the company's vision.

One final thought: CEOs should not overlook the quality of life and the welfare of the employees undergoing organizational change. Continuously articulate the need for change and, whenever possible, attempt to design in a proper work/life balance in the new organizational design.

It is understandable that people may have to sacrifice quality of life in some situations for short periods of time. But an organization that assumes that people should sacrifice their quality of life continuously will not be sustainable in the long run. The organization structure, the process, and the policies of a company cannot be considered satisfactory until they can reconcile business objectives with quality of life.

Conclusion

CEOs are faced with constant change. Some CEOs attempt to reorganize their companies without evaluating their current organizational maturity, aligning their new design to implement their business strategies, and clearly defining how work is to be accomplished under the new organizational structure. Responsible and conscientious CEOs have done a brilliant job of transforming their organizations. Emulate what they have done, and you too will be successful!

Change management and learning will be the subject of the third article in this series. It will describe the necessary steps to ensure that the changes you make will be smooth and sustainable. ■

is to restructure an organization without an in-depth review of how work is to be done in the new organizational structure. At this point the CEO should ask the following series of questions when designing a new organizational structure:

1. Have we documented the policies, procedures, and work practices for our new design?
2. Has the new design been conducted under the banner of "simplify and eliminate waste"?
3. Have we established how we will educate all employees about the new design, the significance of the changes we will make, and the resulting impact to them?
4. Are the documented policies, procedures, and work practices relevant and do they support the new design or are they just institutionalizing old habits or practices?
5. Are all of the policies, procedures, and work practices in line with best practices and easily audited and traceable (either by internal or external auditors)?
6. Are the new policies, procedures, and work practices compliant with industry or governmental standards?

Implementing a new organizational structure requires a major effort. To ensure the new design brings about sustainable changes in the business, the CEO should ask the following once the new structure is implemented:

1. Are the policies, procedures, and work practices visible and actively deployed by managers, supervisors, and workers?
2. Do we have a simple mechanism for reviewing and updating policies, procedures, and work practices as we learn how to operate in our new structure? (Note: It is hard to conceive an organizational change that is implemented perfectly. Some "fine tuning" of policies, procedures, and work practices is inevitable. One good test of the success of your new organizational design is whether users are requesting changes to improve their work.)
3. Are we achieving the planned business results with the new organizational design?

Step 4: HR policies & procedures must support organizational design

The CEO and his/her executive team, assisted by the top HR executive, must develop the new organizational design. Additionally, the HR policies and procedures must also be updated to reflect the new organizational structure.

Performance management is the critical element in support of the new organizational design. Performance goals, time frames, and methods of measurement should be documented and well understood. Most importantly they must be compatible with the new organizational structure and support the strategic objectives.