24 Truths about Organizational Design

Insights from the 12th Annual Organization Design and Diagnostics Conference
November 3-4, 2016 | New York

"The only constant is change."

— Karl Marx

INSIGHTS

BENCHMARKS

RESOURCES

We live in a world of continual disruption. Companies that restructure so they can be agile and flexible will be the most successful at dealing with the unknown. A number of companies have found that dismantling their top-down silos and replacing them with cross-functional teams works best. They have also aligned all new work structures and ways of working around mission, vision, core values, and future strategy. The organization design function can help the company get through a restructuring by training employees and leaders in the desired behaviors, communicating the change plan, and assisting the organization in executing day-to-day work.

When more than 80 practitioners and experts met to talk about organization design, we took notes. Here are the highlights:

The competitive landscape is changing, so companies need to change their organization design to match it.

Change takes time though. Remember, it's a process, not an event, and the most effective transformations require new ways of thinking, good communication, and employee engagement.

1. In general, a change process works like this: define your current state and define your desired state. Then develop tools and processes to get from your current state to the desired state. Deploy the process and track its progress, course correcting where necessary.

2. Align the change process and work around a mission, vision, core values, and strategy. This alignment will engage employees and keep the change processes consistent across business functions and geographies.

3. For complex change processes, focus on why you're making the change, why you're using certain change frameworks, and why you're choosing a certain person to be accountable for certain things. Communicate this message to everyone.

4. Organize around work, roles, skills, and experiences, not specific people.

5. Engage employees in the change by giving them ownership of the process. For example, give technology function heads accountability and have them lead the technology rollout and training.

6. Expect resistance and incorporate it into your change plan by empowering employees to be the agents of change.

7. Consider hiring an alignment leader who can align all the elements of the overall picture—the business imperatives, trade-offs, and ways of organizing people—with each other as well as with the corporate strategy, mission, and vision. One technology advertising company hired an alignment leader to onboard employees into the new structure after a round of hiring and to prevent a culture clash between new and old employees.

8. Consider hiring a digital strategist to help your company figure out how to fit into a digitally connected world.

9. Encourage leaders to let go of control and give change teams the autonomy to make their own decisions.

10. Make sure all change teams communicate with each other. Have a kick-off meeting with leaders from all change teams, where they will clarify deliverables, set expectations, and discuss their teams' roles.

11. Create a communications plan to keep all employees up to date on change progress.

Create cross-functional change teams (also known as matrixed-collaboration teams) early in the change process.

Companies are realizing they need to break down silos to operate in the twenty-first century. The best way to do this is by forming teams with people from across the organization.

12. Determining who will be accountable for what will take time. When creating a team, define the role of each team member, set boundaries for each role, and lay out decision rights for the team and each role.

13. Recognize that each person in the team will approach the assigned change task in a different way—from the perspective of his/her respective silo—so you may have to spend some time making sure everyone's viewpoints can be reconciled.

14. Each change team needs to determine deliverables and time frames.

Build agility into how you operate.

You need to figure out how to be nimble and flexible if you want to move forward.

15. A top-down management structure only works if you can predict the future. In the current businesses environment, where everything changes so fast, this is no longer possible. Now you need to prepare for many different scenarios and be able to jump from one to the next.

16. A change plan can't be linear—you can't create a road map and expect it not to change. You need to be able to course correct along the way.

17. Everything is a trade-off. If you want to have new capabilities to prepare for the future, you have to give something up. For example, one health insurance company wanted the ability to create strategy on the fly. As a result, certain individuals who used to make all the decisions for the company had to delegate decisions to different parts of the organization.

18. Have a job architecture, but don't have specific job descriptions because jobs change too fast.

Organizations don't change unless people change.

The organization design function can help create a new culture by updating current learning and development offerings and bringing desired values and behaviors to life.

19. Culture is a system of shared values, beliefs, and behaviors about how things get done in an organization, so determine what beliefs and behaviors need to change and create a set of behaviors and competencies that everyone is expected to exhibit. Then think about how to measure the progress of those changes.

20. To help determine what a desirable culture would look like, ask everyone to fill in the statement: "Imagine a culture where…."

21. Employees and the organization as a whole mirror its leadership. Therefore, leaders need to set an example for everyone else. For example, if you expect employees to participate in matrixed-collaboration teams, then leaders need to participate.

22. Create a plan to educate all leaders and employees in the expected behaviors and competencies. Recognize desired behaviors.

23. You need make failing OK. Change the cultural focus from whether you will fail to what you will learn/change when you do fail.

24. Hire for culture. Train hiring managers to spot diversity beyond the obvious and to assess candidates for cultural fit.

These insights represent highlights from discussions held by 80 executives who attended the Organization Design and Diagnostics conference. The views expressed are those of the presenters and participants of the conference. Presenters include executives from a cross-section of companies and industries:

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W. Scott Hine, Vice President, Products & Solutions and Chief Innovation Officer, **Novus International**

Tony Matejczyk, Senior Consultant, **AlignOrg Solutions**

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Sean Reilley, VP, Agile, Talent and Business Management, **IBM**

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SNAPSHOTS

SNAPSHOT I

A livestock feed company overhauls its product launch process

About three years ago, an animal feed company realized its cross-functional product development and marketing processes were not working—determining who was accountable for what was not clear, hand-offs across functions were inconsistent and too informal, several different processes were used at the same time, and there was a lack of project management skills—so it embarked on a change process.

Early in the change process, the company put together a cross-functional team to create a change framework and align all steps along the change process with the company's mission, vision, and core values. All work revolved around these, so the change process remained consistent across business functions and geographies. This process took about a year and many revisions. During this step, the team also figured out who would do what in the new product development process.

Next, the company created a responsibility assignment matrix (RACI) chart to assign accountability to every step of the new product development process. This chart helped each cross-functional team understand how it fit into the process, its level of commitment, and why it was doing what it had been assigned to do. The company wanted employees to drive the change, so it asked subject matter experts to lead training on the new processes. Referring to the accountabilities chart and having employees train each other helped engage everyone because employees felt like they owned the change process.

The company also hired a project manager to oversee the change implementation plan and make sure everyone went about it in the same way. He built credibility in the plan by running pilots to see what worked and fixing what didn't. This good-faith effort helped get resisters on board.

SNAPSHOT II

Digital transformation: What it means for organization design

Digital transformation uses digital technologies and the data they produce to connect organizations, people, physical assets, and processes in new ways. According to the new research report *Digital Transformation: What Is It and What Does It Mean for Human Capital?* from The Conference Board, it has a ripple effect that will touch every aspect of an organization, especially the organization design and human capital functions. At digitally mature companies surveyed in 2015, HR leaders had the weakest digital skills and knowledge of seven business functions.[1]

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1   Mary Young, DBA, *Digital Transformation: What Is It and What Does It Mean for Human Capital?* The Conference Board, July 2016, p. 36.

Digital transformation is a very big deal, according to business leaders, and it has the potential to transform the world. It blurs organizational boundaries, which break down the traditional organizational structure; creates a more transparent talent ecosystem; and generates greater transparency in communications, such as through crowdsourcing. Companies can use digital transformation to help them form agile teams that are not part of an organizational chart and that can change continuously based on need.

Since the organization design function will enable digital transformation within a company, especially the human capital aspect, the OD function needs to initiate the conversation. To assess how digital transformation will affect organization design and human capital implications at your company, ask:

- What will your organization need to do differently?

- What will your organization need to do more of? Less of?

- What type of culture would support digital transformation?

- Do our leaders have the digital vision, knowledge, and skills to lead digital transformation?

- Does our organization have a digital strategy that goes beyond implementing technologies?

- What is our company's capacity to innovate and undertake a radical business model change?

- What new roles might we need to execute our digital strategy?

- How do we align our talent acquisition and management strategy with our digital strategy?

- Have we thought about how we use and manage contingent labor and incorporate that segment within our overall talent strategy?

- Do we have a digital platform that enables us to find, manage, and deploy talent anywhere in the organization?

- Are we using digital platforms to understand external talent supply and find critical talent?

- Can we combine talent data with other kinds of data (business, sales, marketing, customer, etc.) to understand and demonstrate to others how talent factors are related to business decisions?

SNAPSHOT III

How to become an agile organization

Agile is a new and better way of working. It is a collection of work practices that are based on a set of principles, which have been derived from a set of values. All of these together make up an agile framework.

1. To set up your agile framework, start with creating a set of values. They can include "openness," "courage," and "trust."

2. Then work from a set of principles. These can include:

   Clarity of outcome Determine what you want the final result to be, and let it guide every step along the way.

   Listen, iterate, learn, and course correct Don't wait for the change plan to be perfect to get started. Instead, break it into smaller pieces and work in iterations. Each new version should be based on what you learned during the earlier iteration.

   Self-direction for teams Empower teams to make their own decisions instead of concentrating leadership in the hands of a select few. This empowerment will allow for greater innovation.

3. Finally, implement agile practices: determine what you need to do differently to change how everyone works. How do you make it happen?

   Understanding the work Divide the work into three categories: program based, operations based, and leadership based. Determine who is responsible for executing each category of work and how the change strategy can be cascaded down work groups.

   Form and scale teams Design work funnels for each category of work and put together design teams and leadership teams dedicated to a single funnel of work. Make sure each team is small enough to be self-directed. A manager should set priorities for each work funnel, then get out of the way and let each team work. Teams can manage themselves by breaking the work into smaller chunks and working in iterations. They will feel a sense of accomplishment when they finish each piece. When possible, bring teams together in one location to work for part of the time, because teams can be more productive and efficient when not having to communicate across time zones.

   If a work funnel is particularly large, break the team into several smaller squads that each work on a piece of the project. Tie the squads together into a tribe.

Train and support Create awareness about your new agile way of working through town halls, webinars, or other forms of large-scale training. Also create a curriculum to train employees and provide support for the new way of working. Offer coaching and on-line training modules, and have team champions.

Measure Determine what success looks like and determine how you'll calculate success. Take measurements to see if people are adopting the new behaviors, and look for places to course correct.

SNAPSHOT IV

A health care organization changes its culture to be more collaborative

A health insurance company wanted to change its culture to be less siloed. It started the transformation by changing the performance management system—the old philosophy was to reach one's goals at all costs; in the new system, the way goals were met would matter just as much as achieving them. To ensure the culture changed, the company focused on four components: leadership accountability, leadership development, hiring for culture, and having performance management that empowers everyone.

To make sure all leaders would be accountable, the company defined what a "leader" was and asked all leaders to adopt a set of leadership competencies and lead in a way that was consistent with the company's values and behaviors. The company built a development plan for leaders that included how to give feedback, how to talk about leadership competencies with employees, and how to motivate employees to take ownership of the leadership competencies. It also held workshops on hiring for culture, including how to interview for culture and fit and how to let a candidate know what the company was looking for beyond résumé skills. It also had all leaders participate in action learning and in-house elective courses taught by subject matter experts. Leaders also learned how to write goals and received periodic feedback from leadership experts, which they could apply right away to change a behavior.

The organization design function made sure all learning and development offerings were up to date and developed creative ways to bring the company's values and behaviors to life. It also helped to drive a new culture of improved collaboration by adopting "matrixed collaboration"—creating cross-functional teams to help break down silos. The OD team walked the cross-functional teams through the process of working in a matrixed team, including how to see things from the perspective of other team members' functions, the importance of setting boundaries, clarifying roles within each team, and setting team goals.

SNAPSHOT V

A health insurance company teaches teamwork to stay agile

To keep up with the "lightning pace of change" in the health care industry, a health insurer had to break the top-down way of working and create a collaboration-based method so it could create new strategies rapidly. It also needed to design new operating models and grow certain lines of business to keep shareholders happy despite all the environmental changes.

To achieve these objectives, it took 40 leaders on a weeklong retreat to figure out which lines of business to grow, determine shared goals, and identify obstacles to achieving the goals. The group divided into cross-functional teams based on each obstacle to develop solutions.

Teamwork was critical. Since this was a group of people who were not used to teamwork, everyone had to participate in a ropes course to break the mindset that leaders needed to guide everything. To keep the teamwork mindset after the meeting's close, cross-functional teams were required to meet every two weeks over the next 18 months.

The company also changed its performance management system. In the old system, managers set employees' annual goals. In the new system, goal setting is controlled by each employee (not manager), and the process is fluid—some goals could be for as short as two months. The company eliminated performance reviews and ratings because it found that these kept people from trying to reach new goals. Instead, employees and managers had conversations based on work contributions.

The company also switched from traditional succession charts to talent pools of employees with multiple skills and experiences. A nice side effect: this change has also improved diversity.

SNAPSHOT VI

A retailer with a rich history creates a new culture after acquiring an internet-based retailer

A retailer that has existed in Canada for 400 years acquired an online-only retailer because the latter had a progressive, innovative culture—it knew how to work across times zones, had mastered mobile, and was entrepreneurial.

During the first 30 days after the merger was complete, the legacy company conducted talent assessments of critical roles and departments to determine which teams and individuals were key to meeting goals, such as adopting mobile. These people were placed on task forces.

The company used a change plan that was not linear. Instead, it ran parallel tracks such as management alignment, training, communication, and employee engagement. Throughout the process, it used pulse checks to measure how the integration was going and how employees felt about the new culture and about the future, and it made adjustments along way. For example, when the company learned that employees thought the old newsletter was too corporate, it replaced the bulletin with online Q&A sessions, town halls, brown-bag lunches, and office hours with leaders.

It also made sure management from both companies were aligned in their goals and conducted an exercise to engage employees and management: Everyone at each company had to write down three words or phrases to describe the other company's culture. The answers were put into word clouds, and everyone discovered that while there were obvious differences, both also shared similar thoughts—they used these similarities as a springboard for changing behaviors and figuring out how to build a culture and way of working that everyone could agree on.

The legacy company also conducted a grassroots approach to learning. For example, function heads led training for the new technology rollout. Both companies also learned from each other—the legacy company adopted work flexibility from the newly acquired company, and the online retailer enjoyed using the parent company's on-demand courses.

The legacy company also replaced formal performance reviews and ratings with assessments for measuring progress in behavioral changes.

Benchmarks

Conference attendees were polled on the following questions:

Chart 1

In the coming year, in what areas of your organization do you expect to make organization design changes?

Business unit/division (primarily market-facing units with profit and loss accountability)
39%

Enterprise-wide (across all business units/divisions and functions)
37

Function (e.g., supply chain, HR, Finance, IT)
20

Departmental/work unit (e.g., departments or sub-groups within business units, divisions, or functions)
4

n=46

Chart 2

Will the organization design changes be driven primarily by:

New business model
45%

Innovation (new products/offering)
25

Cost cutting
25

Other
18

Merger or acquisition or divestiture
12

n=51

Chart 3

To what extent does the senior leadership of your organization understand how to use organization design to more effectively execute new business strategies?

Somewhat
71%

To a great extent
14

Not at all
15

n=55

(Continues on next page)

Benchmarks (continued)

Chart 4

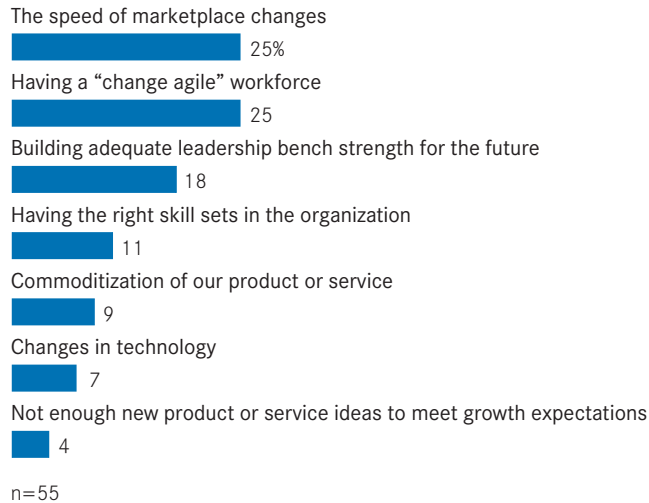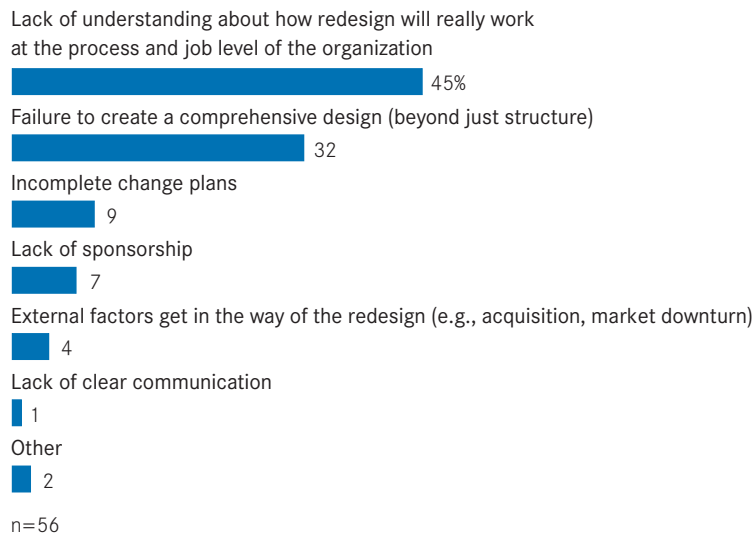**What are the biggest pressures your organization faces as it tries to succeed in the marketplace?**

The speed of marketplace changes
25%

Having a "change agile" workforce
25

Building adequate leadership bench strength for the future
18

Having the right skill sets in the organization
11

Commoditization of our product or service
9

Changes in technology
7

Not enough new product or service ideas to meet growth expectations
4

n=55

Chart 5

What is the primary barrier in your organization to realizing the benefits of organization design changes?

Lack of understanding about how redesign will really work at the process and job level of the organization
45%

Failure to create a comprehensive design (beyond just structure)
32

Incomplete change plans
9

Lack of sponsorship
7

External factors get in the way of the redesign (e.g., acquisition, market downturn)
4

Lack of clear communication
1

Other
2

n=56

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Benchmarks (continued)

Chart 6

To what extent are you able to measure the impact of organization design changes on your organization's performance?
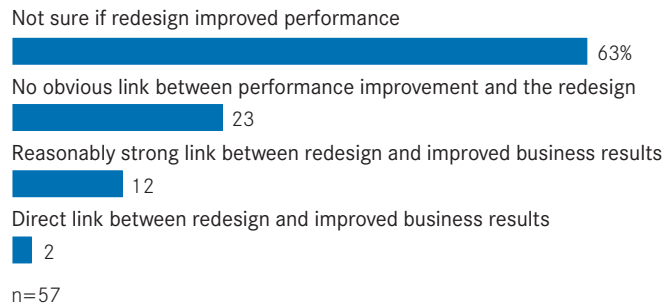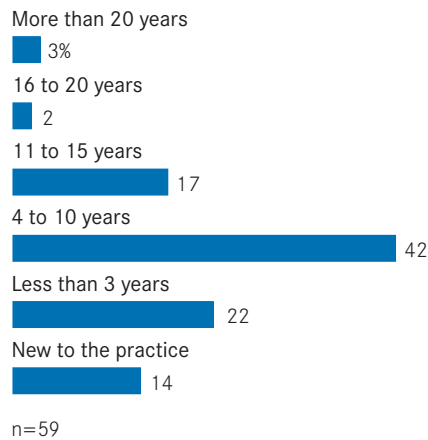
Not sure if redesign improved performance

63%

No obvious link between performance improvement and the redesign

23

Reasonably strong link between redesign and improved business results

12

Direct link between redesign and improved business results

2

n=57

Chart 7

How long have you personally been engaged in the practice of organization design?

More than 20 years

3%

16 to 20 years

2

11 to 15 years

17

4 to 10 years

42

Less than 3 years

22

New to the practice

14

n=59

ACTIONS TO TAKE

What actions will participants take after the conference? A postconference "action survey" highlights a range of objectives.

- Align leadership behaviors with culture

- Explore developing a stronger partnership with senior leadership to address alignment

- Create alignment leaders

- Look at talent pool idea

- Continue to push leadership to focus on structuring around operating model—not "boxes"

- Try to apply the concept of "Agile" to our structure

- Use the six blocks of org design as a methodology to organizational design

- Clearly differentiate org design work from training / OD work

- Use the ANCHOR approach

- Apply digitization towards company's ongoing initiatives for org re-design

- Digital transformation ripple effect—review and figure out what we aren't doing from an HR perspective that we should be doing

Related Resources from The Conference Board

PUBLICATIONS

Co-creating Transformation: The Power of Coaching in Organizational Change
October 2015

Every organization is different, but all need to be able to continually respond to an ever-changing environment. Well-managed coaching interventions at key points in the change management process can strengthen an organization's ability to achieve real transformation. When coaching is truly integrated, companies are able to "co-create" transformation through greater self-awareness and purposeful action by individual leaders and teams throughout the organization. This report explores coaching as a strategic tool and includes profiles of three organizations developing this core capability: Boeing, PepsiCo, and Cargill. Each has established a strategic framework for coaching that has had a powerful long-term effect.

Digital Transformation: What Is It and What Does It Mean for Human Capital?
July 2016

Digital transformation leverages digital technologies and the data they produce to connect organizations, people, physical assets, and processes. While many leaders believe that digital transformation should be a strategic priority, few companies have made much progress toward achieving it. Among the biggest obstacles are lack of digital leadership, no burning platform, competing priorities, and lack of familiarity with digital technologies. This report aims to address several of these obstacles by explaining digital transfor¬mation, describing its business impacts and illustrating them with company examples, and then outlining digital transformation's implications for human capital.

WEBCASTS

What Is Digital Transformation and What Does It Mean for Human Capital?
November 2016

Digital transformation is a strategic business imperative for many organizations. Yet most people have only a fuzzy concept of what digital transformation actually is. Business leaders say it's a priority but often overlook digital transformation's implications for human capital. HR leaders need to step up and become players in setting their organization's digital strategy. This webcast will give them the knowledge and confidence to do that.

Transformation in Action: 175 Complete, Many Lessons Learned
September 2016

Why is change so difficult? Are we really focusing on the right things? The results of a recent Harvard Business Review Study, sponsored by Strativity Group, found some eye-opening truths about change. Join our conversation on what we really need to focus on for successful change programs.

COUNCILS

Change and Transformation Council

Digital Strategy Council

Digital Transformation Council

Enterprise Digital Transformation Council

Enterprise Process Optimization Council

Global Business Services Council

HR M&A Council

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