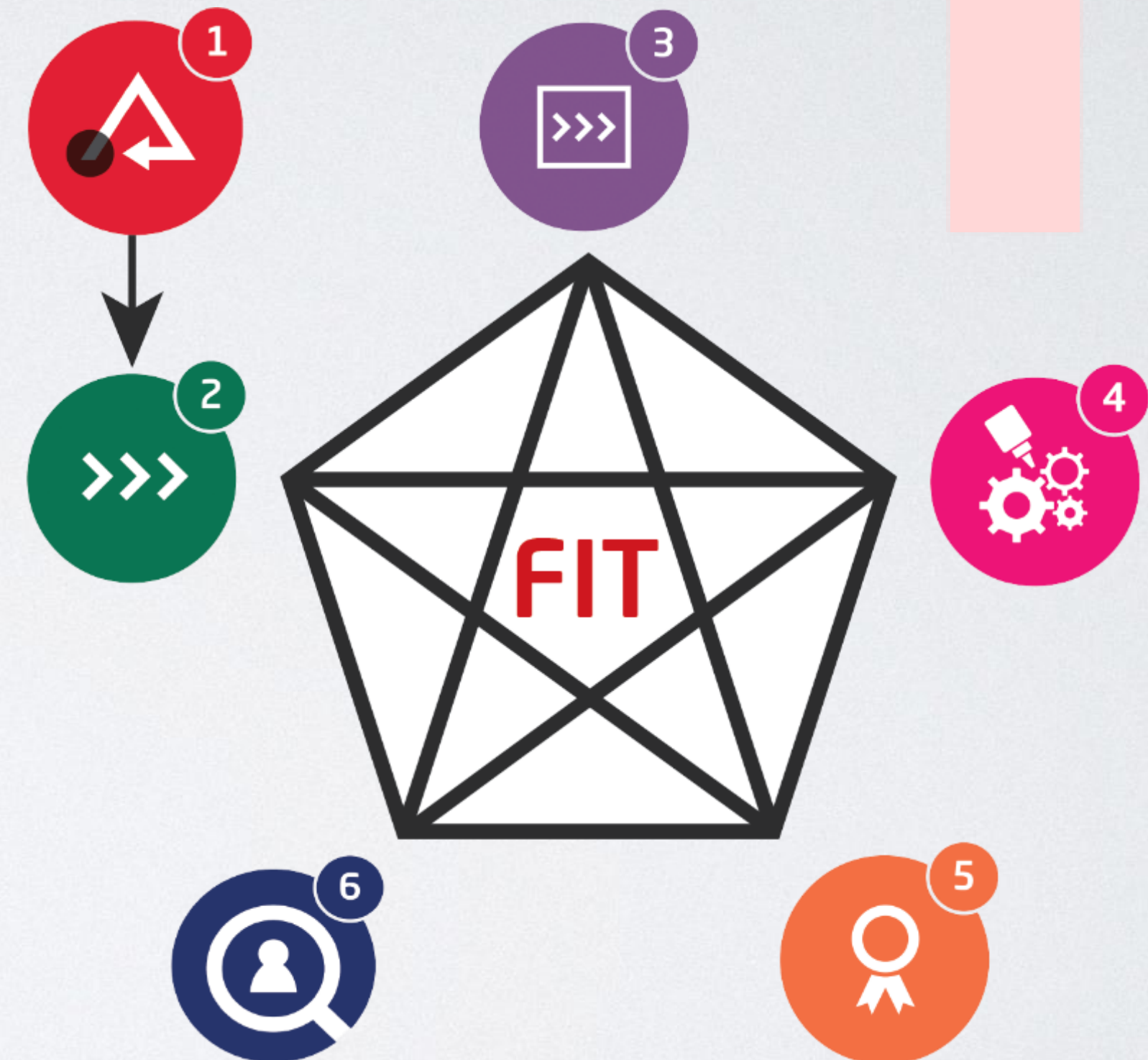# Delivering Improved Business Performance Using Organisation Design…

Presented by Mark LaScola and Peter Turgoose
ON THE MARK

OTM Original Webinar
14th December 2016

About the **presenters**

**Mark LaScola
Founder & Managing Principal**

**Peter Turgoose
Senior Consultant**

About OTM
Our Solution Sets

Organization Design and Business Transformation

Concept through implementation

Accelerated Change Readiness

Planning through implementation

M&A, Business Integration

Due diligence "fit predictor" through implementation

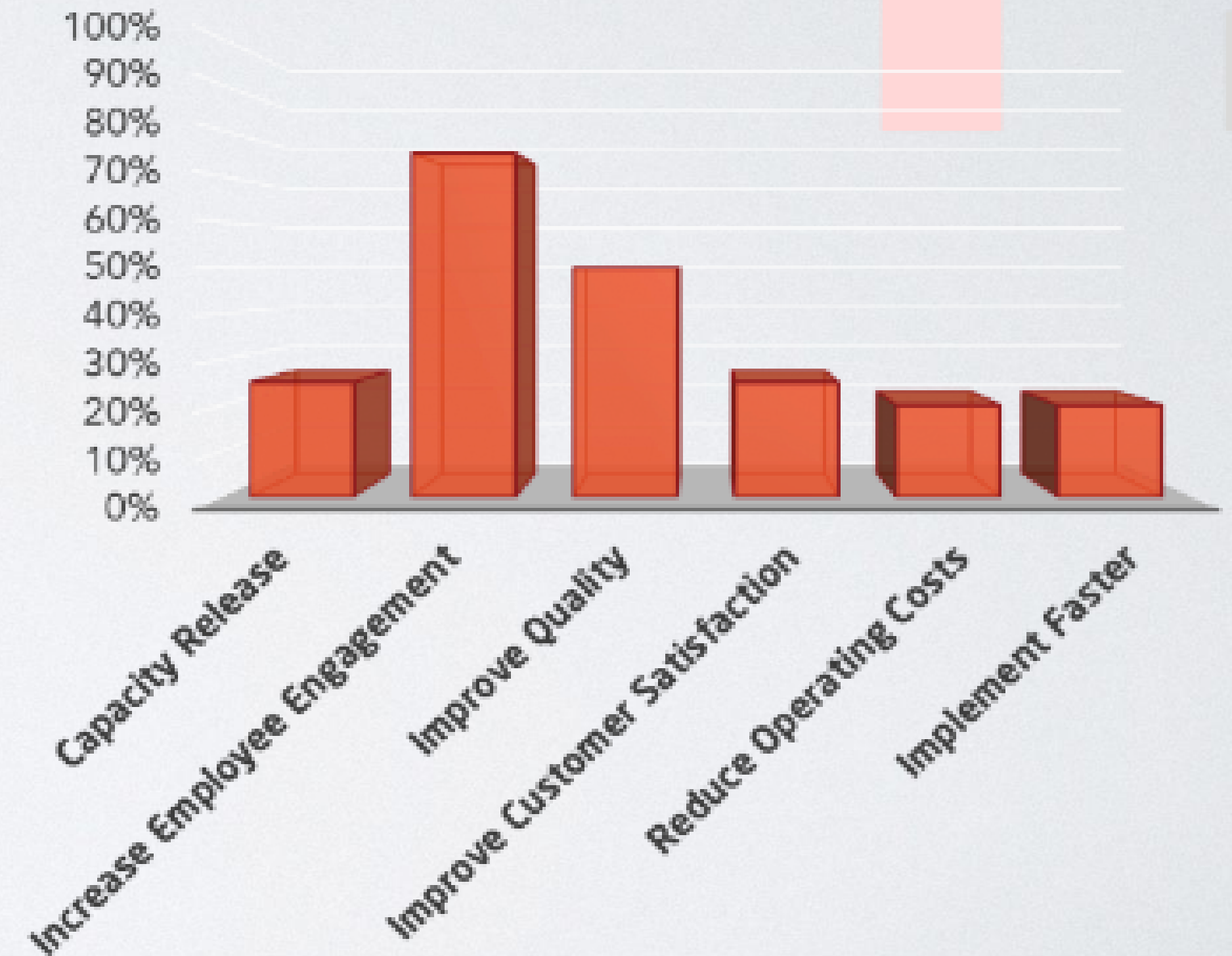**Accelerated Decision Making, Planning & Problem Solving**

Issue identification, resolution through implementation

Capability Building

Assessment, delivery and support (10/20/70)

Our solutions achieve a common results footprint:

Chart categories: Capacity Release, Increase Employee Engagement, Improve Quality, Improve Customer Satisfaction, Reduce Operating Costs, Implement Faster

About OTM

Unparalleled Depth of Expertise & Breadth of Experience

OTM has delivered over 400 organization design and transformation projects, in over 35 different countries, on five continents with every type of business function and countless industry sectors. OTM offers our customers one of the industry's most collaborative, disciplined, comprehensive and integrated transformation solution. Trained and developed over 5000 executives and internal change agents.

Sectors	Functions	Geography
Aerospace	Human Resources	North America
Defence	Lean, Six Sigma, PMO	Western Europe
Energy	Legal	Scandinavia
Financial Services	Supply Chain	Eastern Europe
FMCG	Manufacturing	Latin America
Government	Operations	Middle East
Healthcare	Finance, IT	South East Asia
Pharmaceuticals & Bio-medical	Regulatory	South Pacific
High technology	Sales	
IT Software & Services	Marketing	
Logistics & Distribution	Engineering	
Manufacturing	Outsourcing – BPO	
Retail	Skunk works	
Telecommunications	Support	

OTM Support Offerings

OTM offers a variety of informational, educational and enlightening support services including executive briefings and primers, internal or external multi-day, hands-on skill building workshops using real projects, behind the scenes support and guidance, case studies, webinars, conference presentations and TED Talks. Contact us at info@on-the-mark.com

A **global** business with a proven track record

- In business over 26 years
- Completed over 400 redesigns
- In 35+ countries
- Across most industries
- For every type of business function
- For government and hybrid-government businesses
- On five continents
- Achieving a common results footprint
- Using collaborative methodologies from start to finish
- Trained/developed over 5000 internal change agents and leaders in our solutions (10/20/70)
- Owner of one of the industry's most comprehensive, integrated and holistic solutions.

AIRBUS

NATIONAL NUCLEAR LABORATORY

BRITISH AIRWAYS

DOLBY.

Royal Mail

PURINA
Your Pet, Our Passion.®

AMERICAN EXPRESS

TJX
THE TJX COMPANIES, INC.

BAE SYSTEMS

Nestlé

intel

CSL Behring
Biotherapies for Life™

NESPRESSO.

Webinar Overview and Focus

Business performance is enabled by its operating model and the totality of individual efforts by the people who work in it.
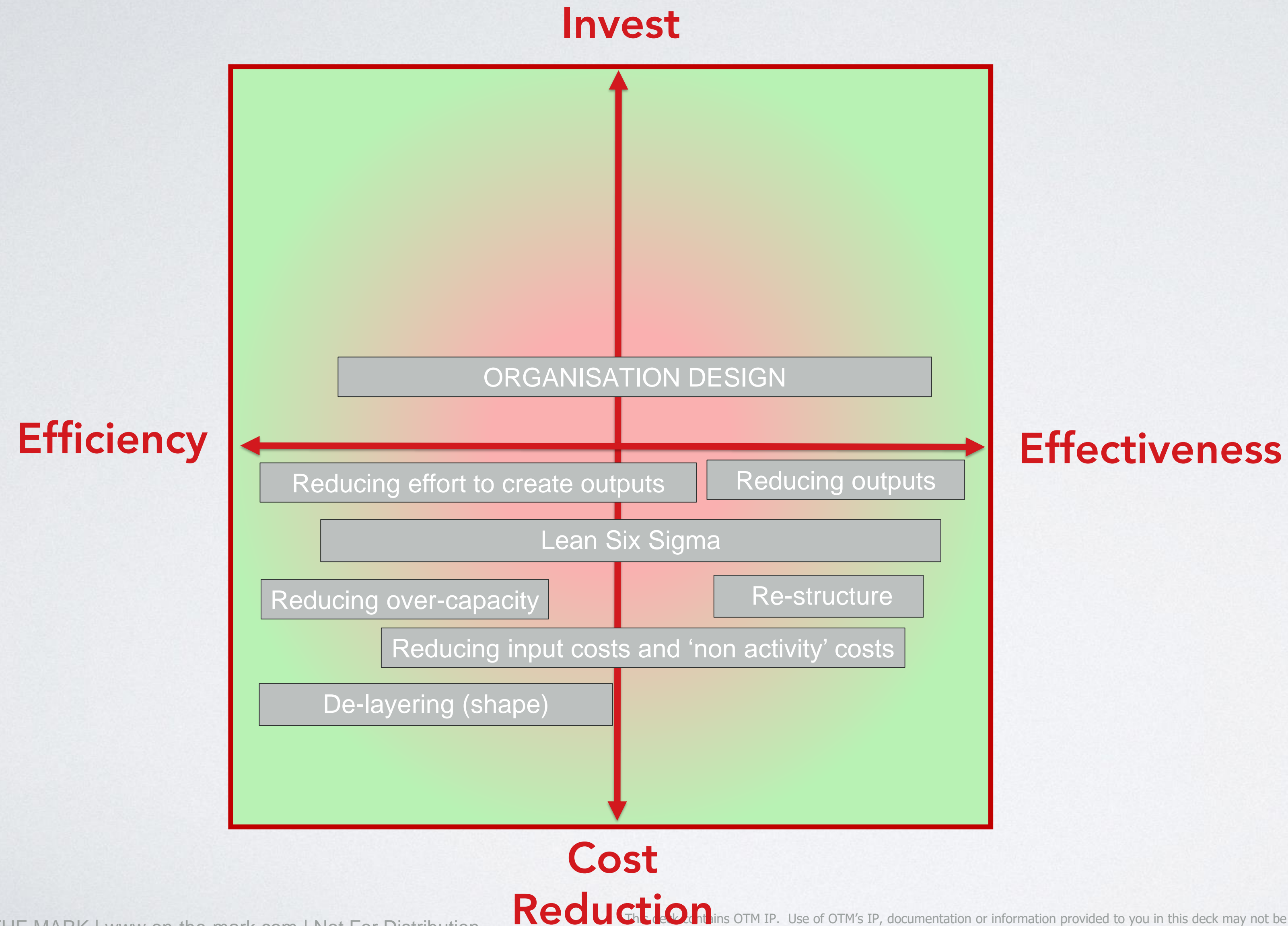
Most business' operating models today are unfit for purpose significantly impeding performance. Common ways to try and "fix" unfit and over-complicated operating models (de-layering, re-structuring, lean/six-sigma, etc.) tend to only increase complication.

Consider the current obsession with shape (levels and spans of control) as a means to "improve performance" and drive improved margins…It is a red herring. While serving to cut costs immediately and give the impression that something is being done, it does little to improve performance. In fact, de-layering most often further complicates a business and may end up costing more due to band-drift.

To improve collective performance look to the operating model. Changing an operating model requires a comprehensive, integrated and holistic solution – this is organisation design.

In today's business environment, evolving business strategies and employing new business models require operating models that are "*fit for purpose.*"

Tactics to Improve **Performance**

Invest

Efficiency ←→ **Effectiveness**

ORGANISATION DESIGN

Reducing effort to create outputs

Reducing outputs

Lean Six Sigma

Reducing over-capacity

Re-structure

Reducing input costs and 'non activity' costs
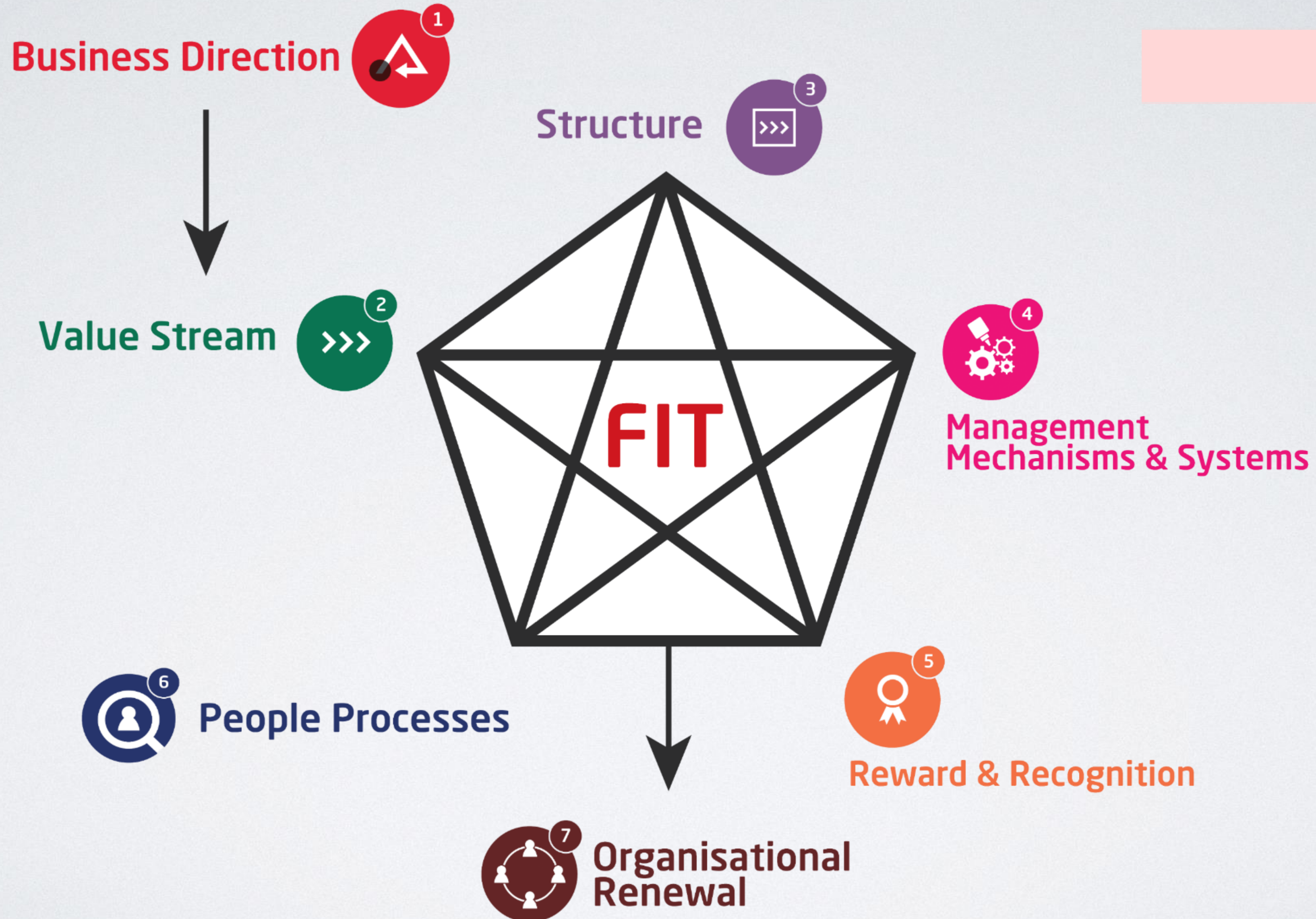
De-layering (shape)

Cost Reduction

In any situation, combinations of these will apply in reducing costs – in each case, some will be more applicable/appropriate than others, and some cost saving options will be easier to achieve than others.

Organization Design

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Organization Design

- The **aligning of all _parts_ of a business to win** in the marketplace to deliver its strategic or competitive advantage.

  o Modernization of an operating model

- It is the **deliberate configuration** of an operating model to fit with intended strategy and business model.

  o Formal and informal

  o Social and technical

- Includes strategy, customer demands, value-creation activities, structures, technologies, management mechanisms & systems, rewards/recognition, people processes, ways of working and culture.

- Ensure a business is capable of achieving its purpose... We call this "fit for purpose."

OTM's Applied Star Model

10

Core of a Work System...
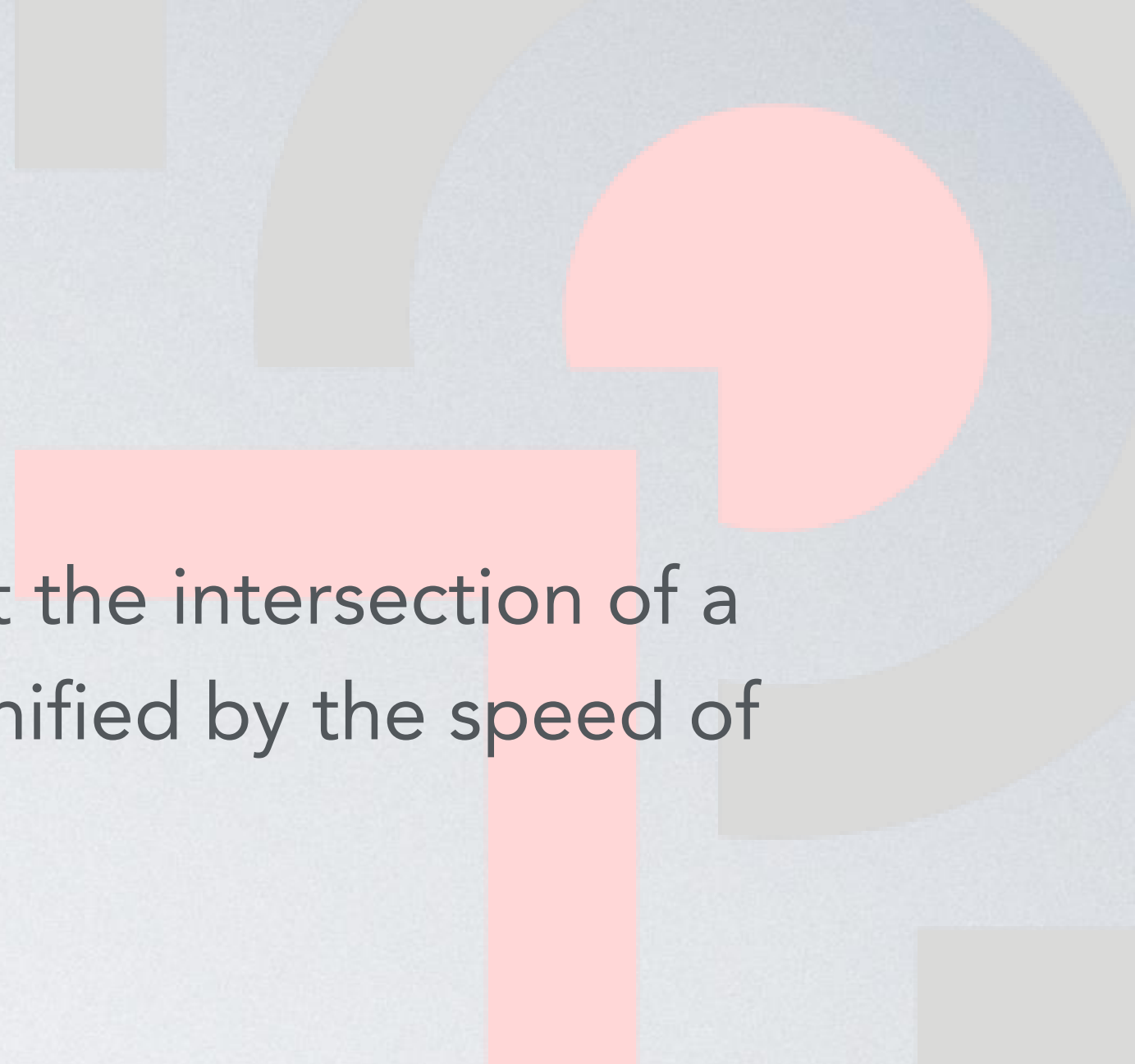
Complexity: Complexity is the natural consequence that occurs at the intersection of a business' product/service offering, its customer mix and their varied demands, magnified by the speed of response required.

VS

Complication: Business complication is the self-made processes, boundaries and structures, practices, mechanisms, protocols and norms embedded in an operating model that makes up HOW a business responds, manages and copes with its complexity.

Complexity:

Products & Services	Customers	Varying Demand	Speed
		Stable Demand All Products	Fast Cycle Times
		Unstable Demand Some Products	Fast Cycle Times
		Seasonal Demand One Product	Slow Cycle Times
		Unstable Demand Some Products	Fast Cycle Times
		Stable Demand All Products	Slow Cycle Times

Complication: as viewed through OTM's Constellation of Indicators©

1. **CHANGES IN Business Direction**

- Changing product and service demand
- Change in customer demand
- Acquisitions
- Evolving strategy

2. Value Stream

- Lean/Six sigma improvements
- Technology changes & improvements
- Work added but rarely removed
- Variation, difficulty, unrepeatable

6. People Processes

- Finance, HR demands
- New roles and jobs filled

3. Structure?

- Teams, units, depts. added
- Changes in work and boundaries
- Power/decision making
- Unclear roles and responsibilities

4. Management Mechanisms?

- V/H glue activities added
- Technology changes & improvements
- Finance, HR demands
- Mgrs/line leaders put in place
- Inserting matrix roles
- Governance and compliance demands

5. Rewards & Recognition?
- New job families
- Leadership styles
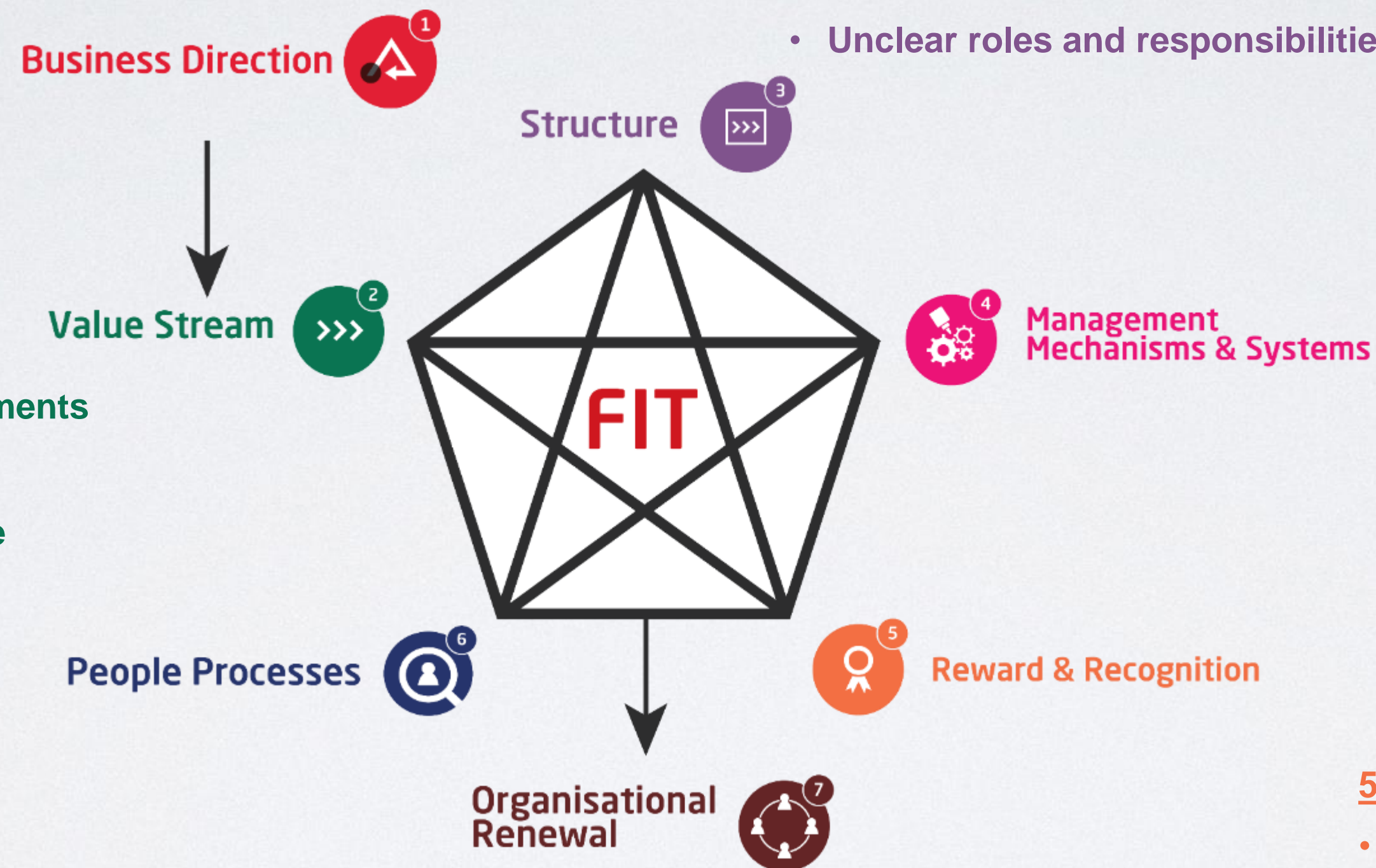
7. Organisational Renewal?

- Incompatible ways of working
- Inhibiting culture and practices
- Legacy cultural attributes

Business Direction ① / Structure ③ / Value Stream ② / FIT / Management Mechanisms & Systems ④ / People Processes ⑥ / Reward & Recognition ⑤ / Organisational Renewal ⑦

1. Business Direction – its effect on performance

a. Its all about strategy – what you will do (and NOT do), for whom and its competitive difference.

b. Creating real value for customers. Decision making authority follows the work.

c. Changing customer demand and your intended experience

d. Product and service offering

e. Identifies need and desire for innovative workplaces

f. Intended social attributes and ways of working.

g. Sets requirements, parameters and constraints to the new operating model

1. Business Direction

The most important element of the OTM STAR as it is where the business strategy is formulated and competitive difference is decided. This determines distribution of power in a business model. We call this "gravitational pull."

- The customer demand and their experience

- Products and services offering

- Regulatory, compliance demands

- Innovative work places, company values/social attributes and ways of working are examined and defined in future terms.

Competitive Advantage (Customer Perspective)
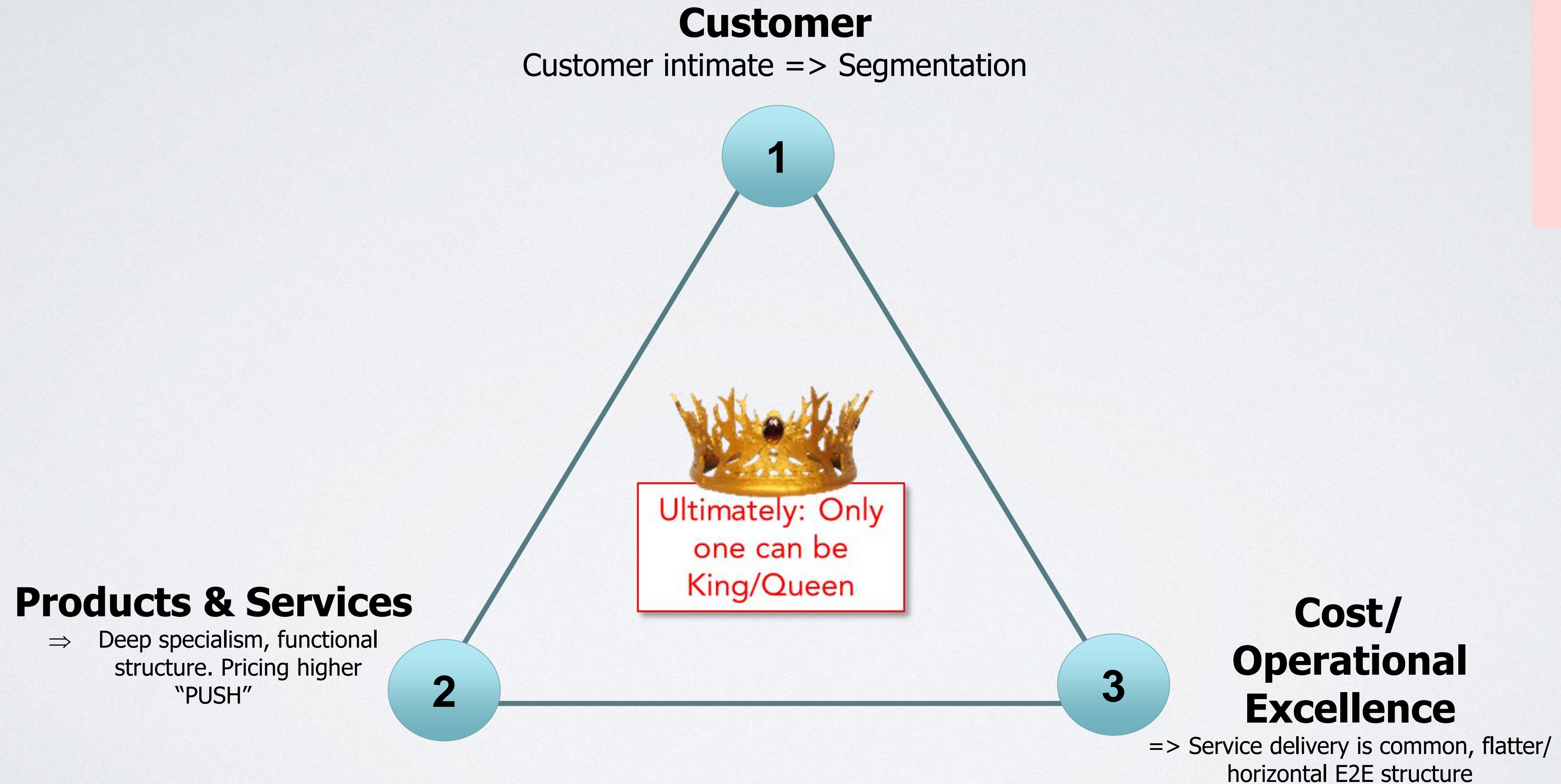
Customer
Customer intimate => Segmentation

1

Ultimately: Only one can be King/Queen

Products & Services
⇒ Deep specialism, functional structure. Pricing higher "PUSH"

2

3

Cost/ Operational Excellence
=> Service delivery is common, flatter/ horizontal E2E structure

Competitive Advantage (Customer Perspective)

Customer

Customer intimate => Segmentation

1

Ultimately: Only one can be King/Queen

Products & Services
⇒ Deep specialism, functional structure. Pricing higher "PUSH"

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3
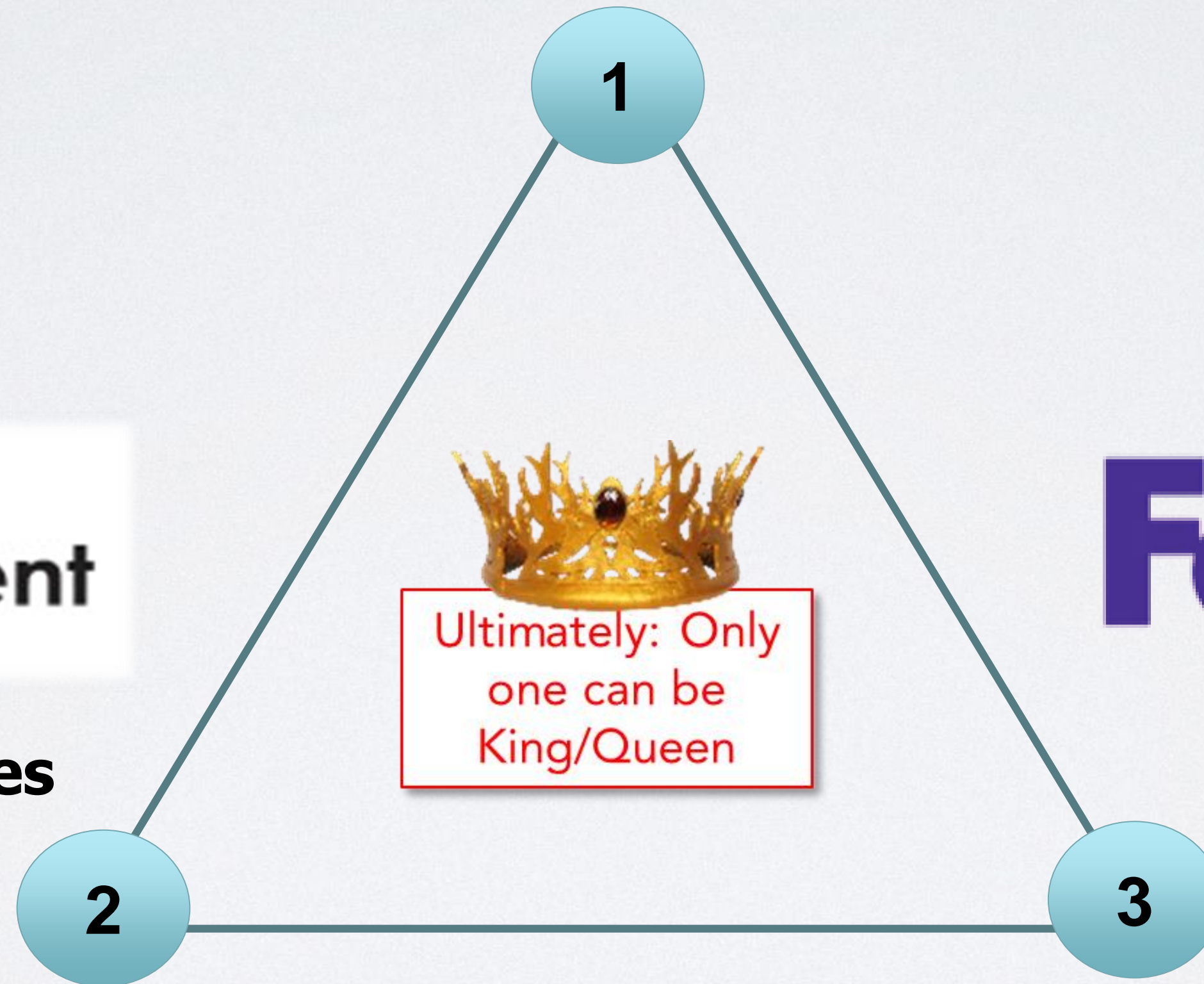
Cost/ Operational Excellence

=> Service delivery is common, flatter/ horizontal E2E structure

OTM **Wisdom** – Business Direction

Establishes essential design requirements, parameters and constraints

Without it, your just making changes for purely cost reasons

Risk cutting core value vs waste, vs capabilities…

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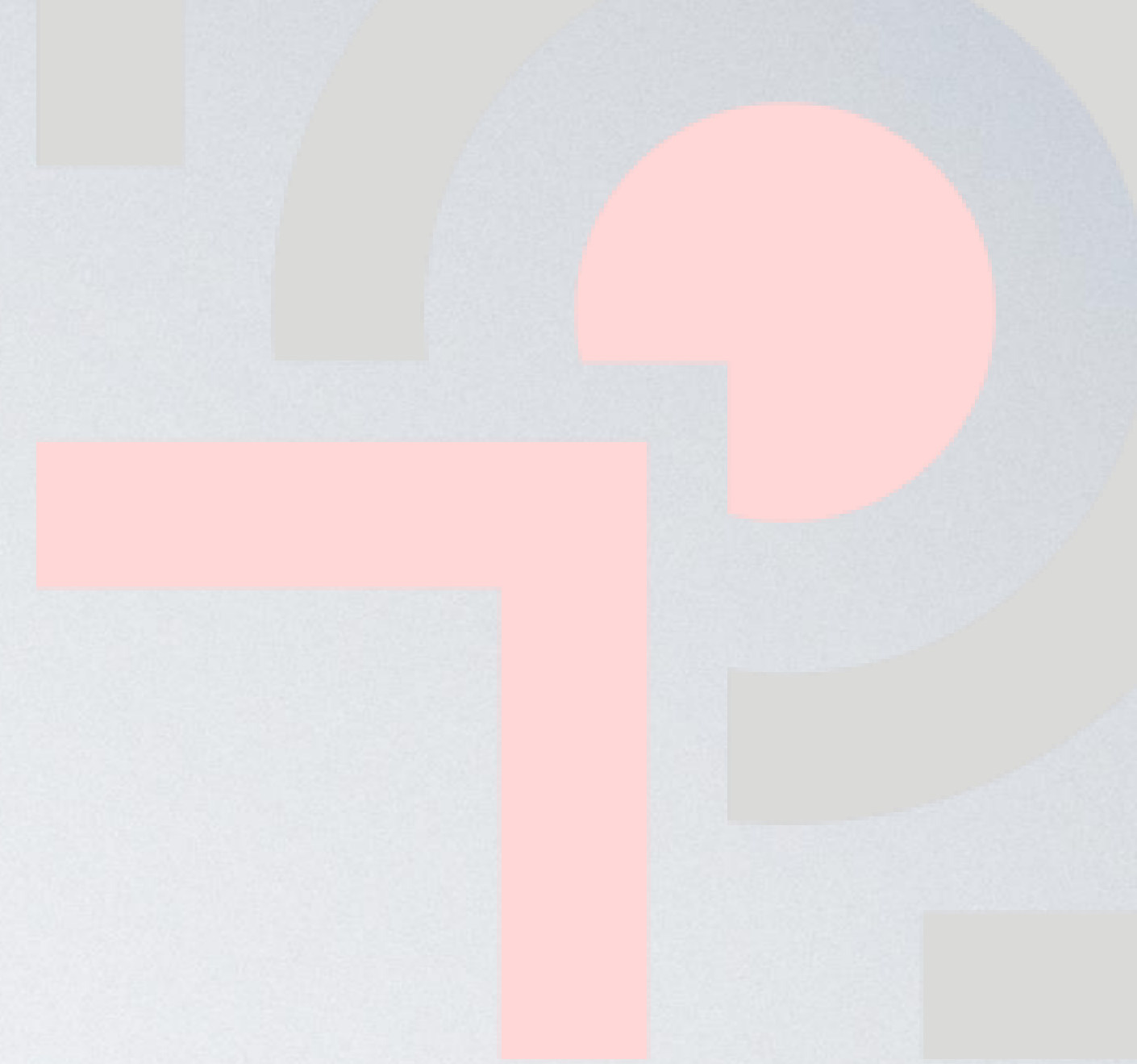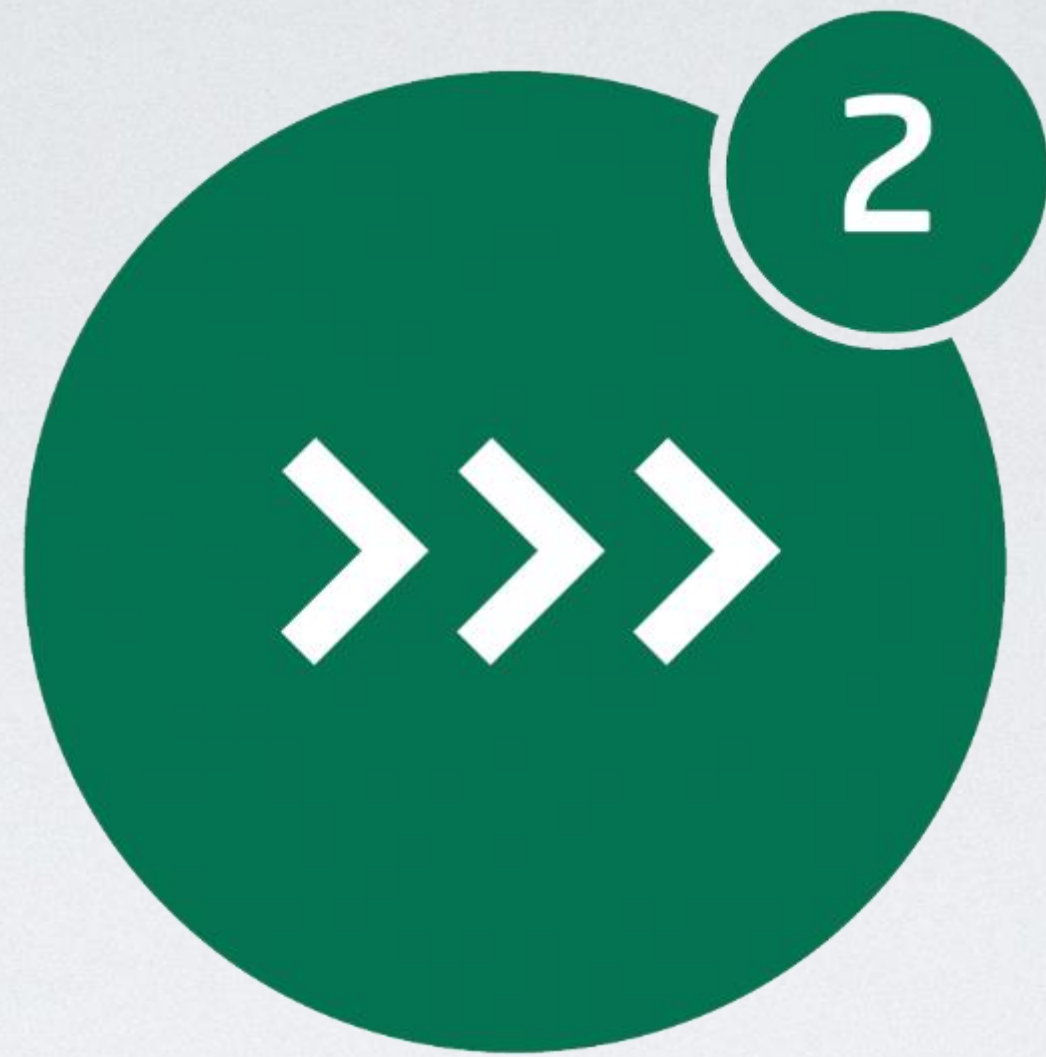
2. Value Stream – its effect on performance

a. It is all about "the work" that creates value for your customers.

b. End-2-end across the entire value chain.

c. Essential to identify decisions that go with the work (51/49).

d. Decision making authority follows the work.

e. This is not about roles, jobs or people.

2. Value Stream

Consists of all tasks and activities that transform raw materials and information into an output, product or service. Value-creating work!

It is the end-2-end process without being concerned about where it is done and who does it.

This element also identifies big decisions, inputs, outputs and inter-dependencies and linkages internal and external to the unit of service.

2. Value Stream Overview

Supply Chain   Finance

| 1.0 Plan It | 2.0 Buy It | 3.0 Make It | 4.0 Sell It | 5.0 Ship It | 6.0 Invoice It |
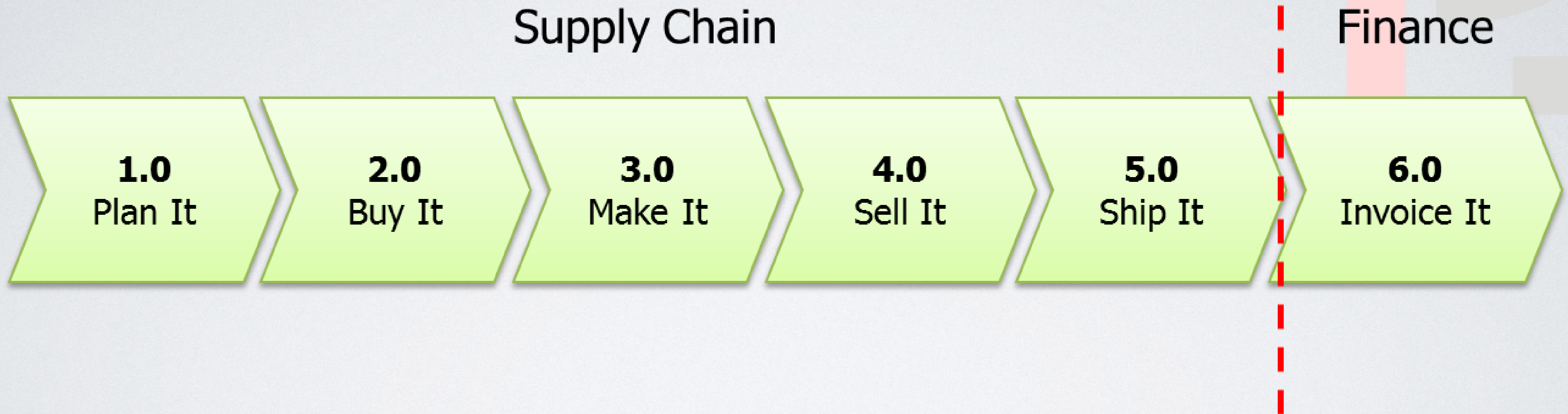
Example: Current state resource estimation across the value stream

FTE of Work Across all Roles by Value Stream Step							
16.24%	6.47%	10.18%	13.29%	17.17%	15.65%	8.24%	3.82%

1.0 Start study planning

2.0 Select vendor

3.0 Order study materials

4.0 Implement distribution concept

5.0 Labelling & packaging and release

6.0 Distribution & Returns

7.0 Deviation management

8.0 Final IMP Reconciliation

Step 1.0: 45%, 23%, 11%, 21%

Step 2.0: 41%, 23%, 13%, 23%

Step 3.0: 22%, 36%, 26%, 16%

Step 4.0: 32%, 15%, 17%, 36%, 15%

Step 5.0: 14%, 37%, 34%

Step 6.0: 17%, 20%, 34%, 29%

Step 7.0: 8%, 3%, 64%, 25%

Step 8.0: 8%, 11%, 47%, 35%

General Admin: 17%, 17%, 33%, 33%

General Admin - infrastructure, administrative work, SME for certain general tasks e.g. SAP expert, label translation, quality = **8.94%**
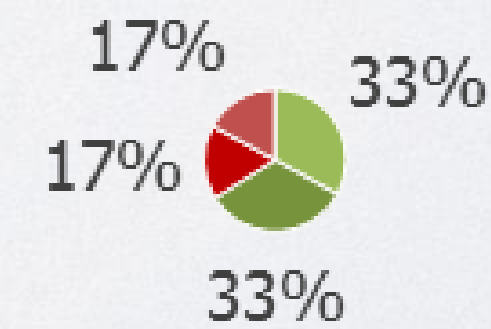
- Value Creating Work
- Coordination
- Re-work Coord
- Re-work

OTM **Wisdom** – Value Stream

ITS ALL ABOUT THE WORK!

**FUNDAMENTAL TO
CAPACITY RELEASE**

**Focus on Value-Add work
Not waste
10-30% waste**

**Fix now or
Fix later... or
Jump start improvement**
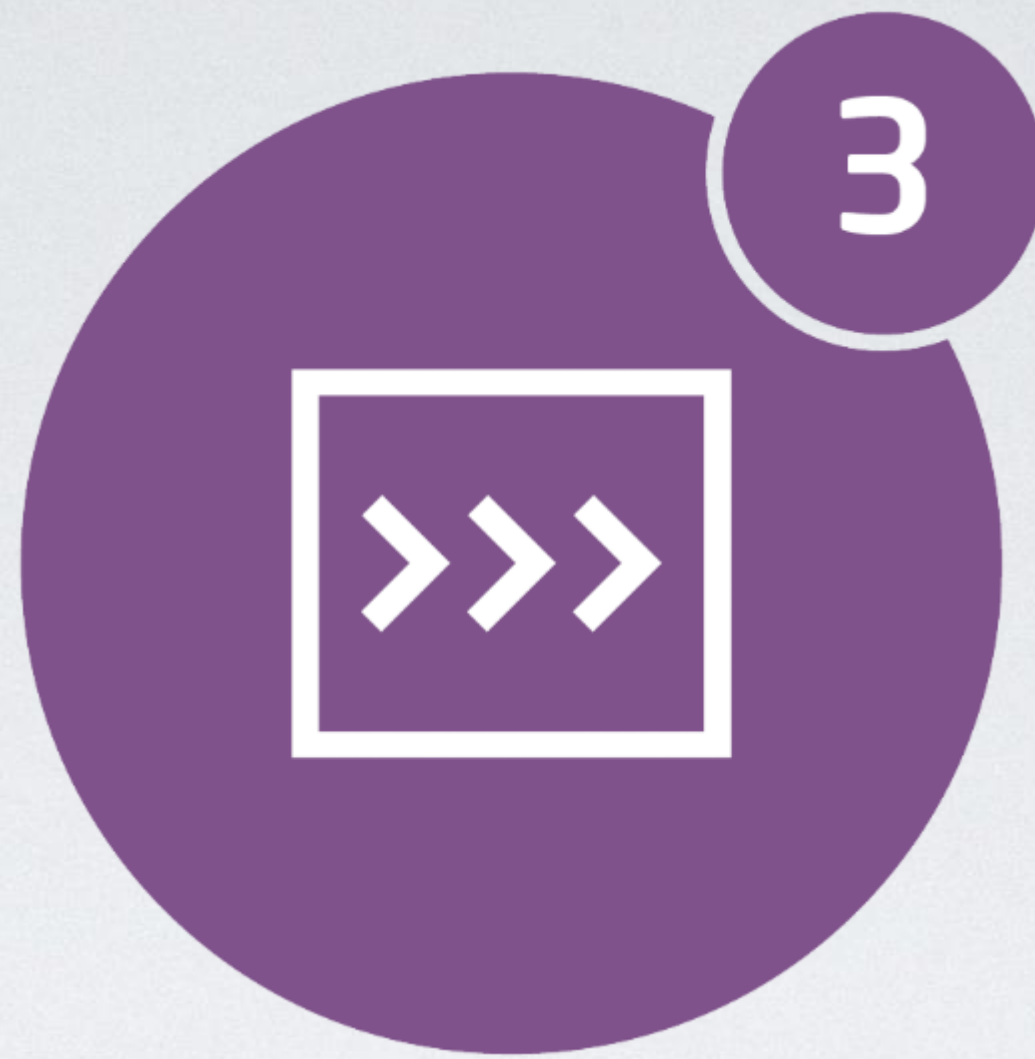
3. Structure – its effect on performance

a) First and foremost, it is about "bounding" work. The more boundaries put in place, the more fragmented a business becomes.

b) Identifying work demand, required roles and jobs to do the work.

c) Six ways to organize people around work. Functional features are way over-used.

d) Ensuring power is aligned to primary structure choices.

e) Management roles are neither structure nor value creating yet necessary.

3. Structure

Structure is organizing people around core work and must best align with strategy.

Thinking beyond roles and jobs, structure consists of 6 different features:
1. Boundary location
2. Departmentalisation
3. Specialisation
4. Shape
5. Distribution of Power
6. Vertical/Horizontal Coordinating and Integrating Mechanisms or what is commonly called "glue."

3. Structure

Departmentalisation is the way we organise people within boundaries. There are 6 ways to organize people around work. Organisations typically default into functional structures due to not knowing the options and trade-offs. Each option has a very real business advantage and disadvantage:

1. Functional - Expertise.
2. Product - Product knowledge, focus, resources.
3. Segment - Channel, customer, demographics.
4. Geography - Location, region, division.
5. Horizontal – Process or end-2-end value stream.
6. Hybrid - A combination of 2 or more of above.

3. Structure

Front-Back Hybrid Dimension

- Market structure front-end
- Product structure back-end
- Where are you in relationship to your competition?
- Where do you need to be in the next 12 to 24 months?
- Does your current structure match your strategy?

Process/Horizontal

- Potential for new processes and radical change to processes
- Reduced working capital
- Need for reducing process cycle times
- Maximum efficient scale across P/Ls through leverage

Cost

Product Dimension

- Product focus
- Multiple products for separate customers
- Short product development and life cycles
- Minimum efficient scale for functions or outsourcing

Geographic

- Low value-to-transport ratio
- Service delivery on-site
- Closeness to customer for delivery or support
- Perception of the organization as local
- Geographical market segments needed

Functionality

Service

Functional

- Small-size, single P/L
- Undifferentiated market
- Scale or expertise within the function
- Long product development and life cycles
- Common standards

Market

- Important market segments
- Product or service unique to segment
- Buyer strength
- Customer knowledge advantage
- Rapid customer service and product cycles
- Minimum efficient scale in functions or outsourcing
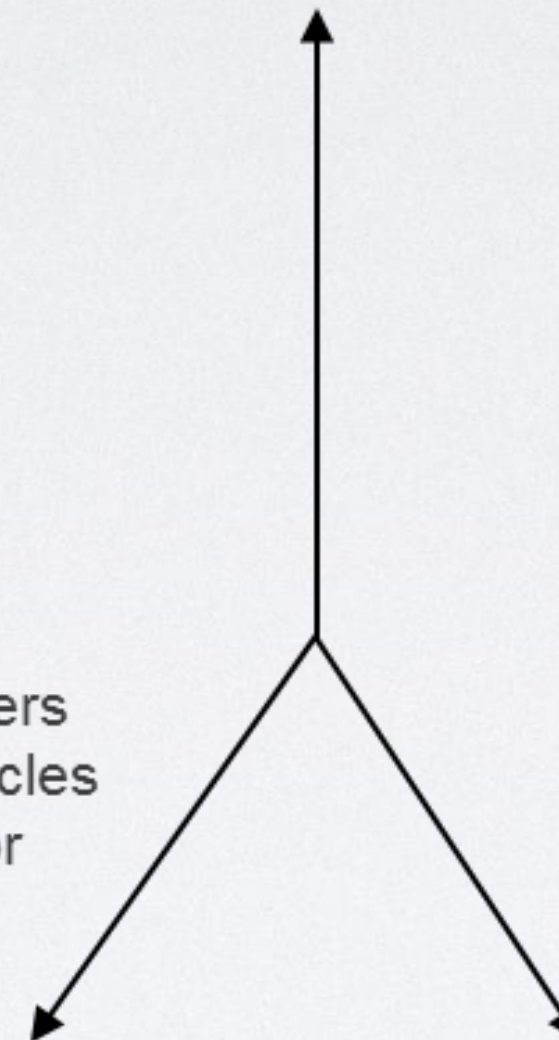
3. Structure

Vertical/horizontal coordinating and integrating mechanisms or glue is used to align and connect work, people, structures and levels within and across the boundaries of a business.

Vertical glue: cascading of goals and objectives.

Horizontal glue: matrix roles, meetings and councils, shared objectives across units/departments, etc.

OTM Wisdom: The more boundaries in an organization, the more fragmented an organisation becomes, increasing the risk of over-specialising; Keep in mind that the more you fragment and specialize the more co-ordination/glue is required; the more glue required, the more people expend the vital resource of time and effort co-ordinating and integrating.

Example of **Complication** – Functions into oblivion

Max Levels: 5
Max Span: 1:13
Min Span: 1:3

A	B	C	D
Supply	C/Logistics	Lean	Procurement

H	G	C	HR OD
HR	Finance	FI Pillar	

E	E
DP	Category SC Heads

F
Customer Supply Chain

1	2
Food Manufacture + Imports (10 FTE) Levels: 2 Span: 1:9	3rd Party Supply (11FTE) Levels: 2 Span: 1:5

3
Confectionery Supply (10 FTE)
Levels: 3
Span: 1:5

3.1	3.2	3.3	3.4	3.3
TDC (1 FTE) Levels: 1 Span: n/a	Export (1 FTE) Levels: 2 Span: 1:3	Lean (1 FTE) Levels: 2 Span: n/a	Supply (8 FTE) Levels: 2 Span: 1:8	Change (8 FTE) Levels:22 Span: 1:5

3.3.1
Lean Value Stream (Virtual)

4	5	6
DSP BE + CR (7 FTE) Levels: 2 Span: 1:6	Factory Supply Chain (6 FTE) Levels: Span: 1:6	Factory Logistics Optimisation (1 FTE) Levels: 1 Span: n/a

Each Sub-boundary = Functional, over-specialized, focused on partial work [fragmented value-stream]

Example of **Complication** onto the customer experience
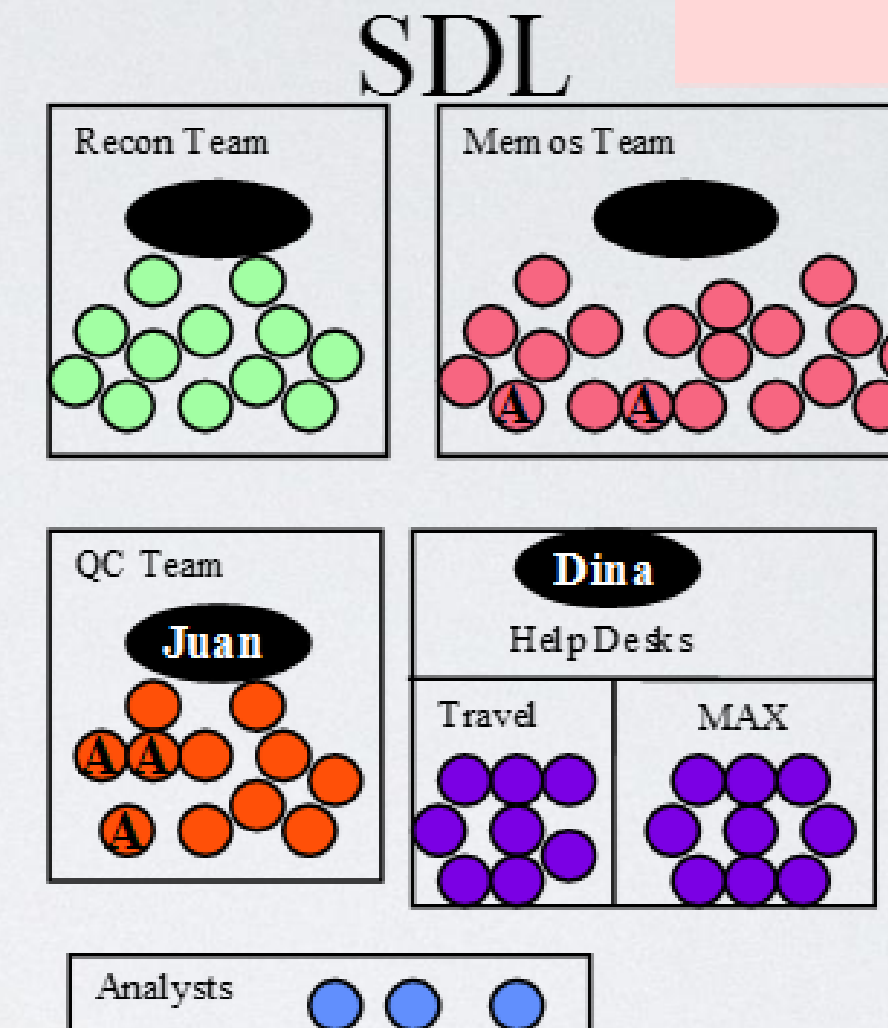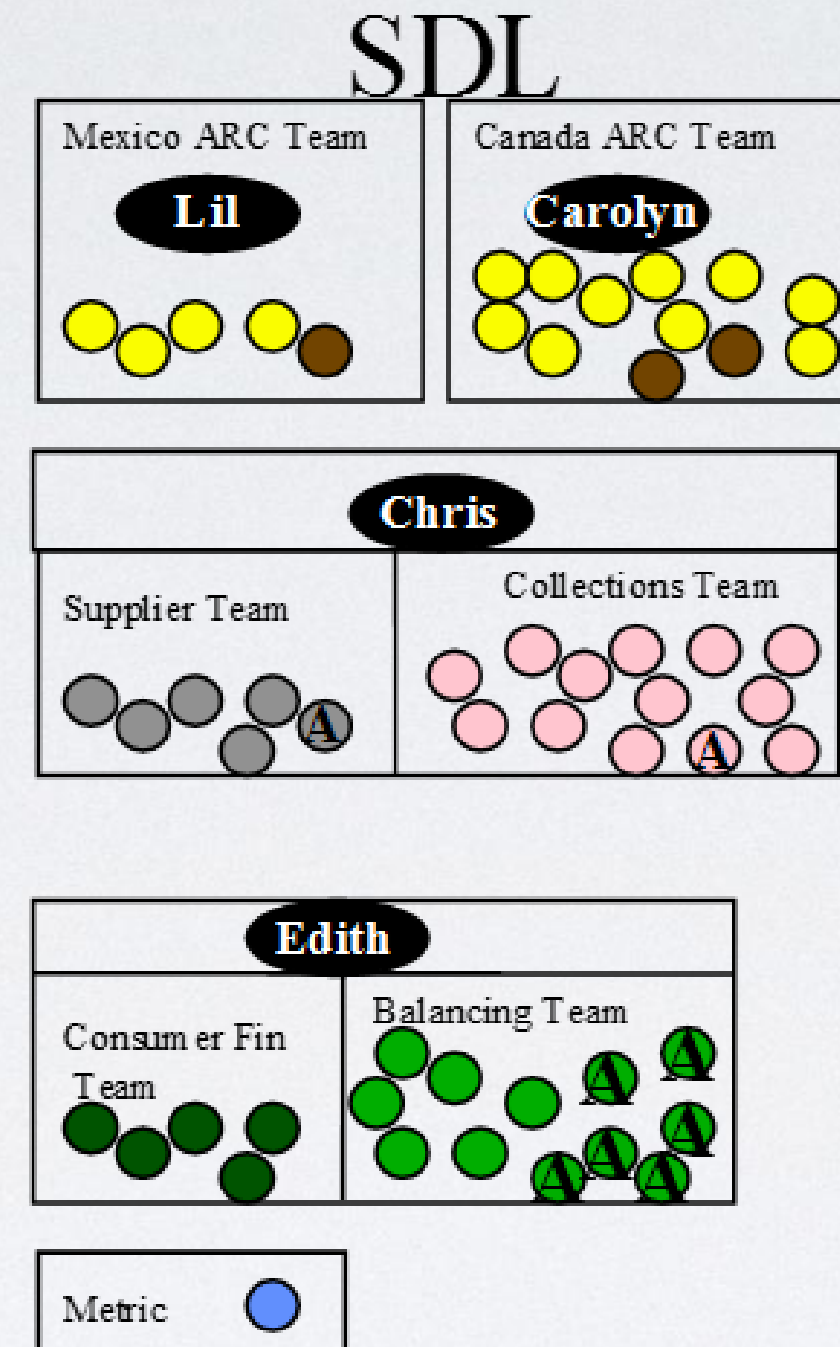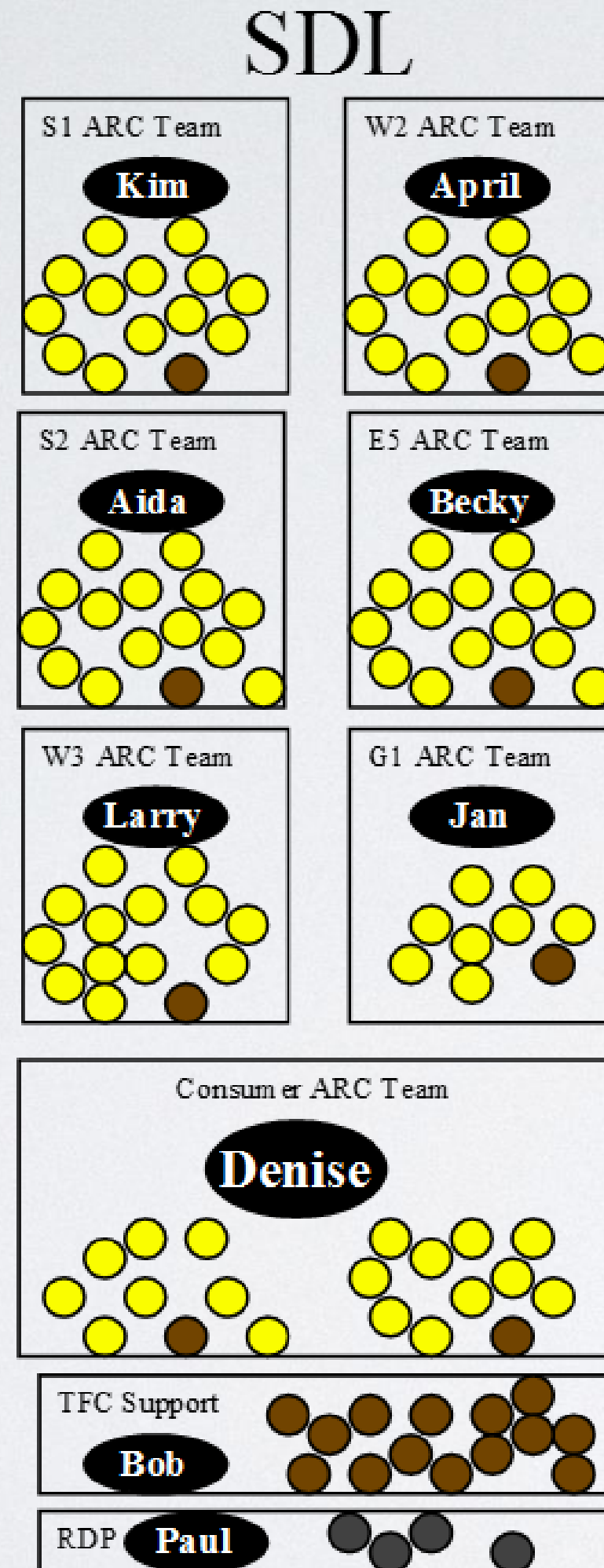
The practical features of **Fragmentation**

- Fragmented value streams [parts of work].
- Boundaries around single parts and pieces of work.
- Human capital responsible for that piece of work only.
- Over-specialisation of roles. This creates redundant parts: If one part fails another has to take over…
- Need for integration and coordination is significantly greater.
- Control and coordination of work happens 2-5 levels above where real work gets done.
- Customer has to navigate the operational maze thus experiencing it.

Leadership   Marketing   Manufacturing   Sales   Finance   Customer Support

A. Work   B. Work   C. Work   D. Work   E. Work   F. Work

Coordination   Coordination   Coordination   Coordination   Coordination
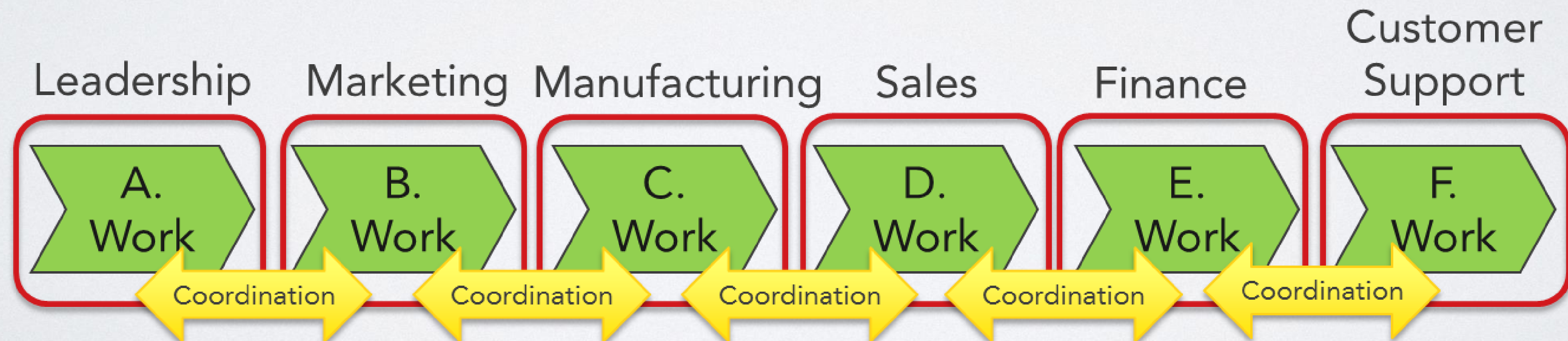
Integrated Infant Nutrition Business

7.0 - 9.0 Completed External to the Main Boundary

| 7.0 Invoice | 8.0 Collect | 9.0 Ship |

Boundary

Segment 1

| 1.0 Identify | 2.0 Research & Test | 3.0 Plan/ Approve | 4.0 Produce | 5.0 Generate Demand | 6.0 Sell It | 10.0 Evaluate |

Segment 2

Sub-Boundary

Segment 3

Produce

Generate Demand

Sell it

Sub-Boundaries

Finance

HR

Support Functions

Scientific Support

Regulatory
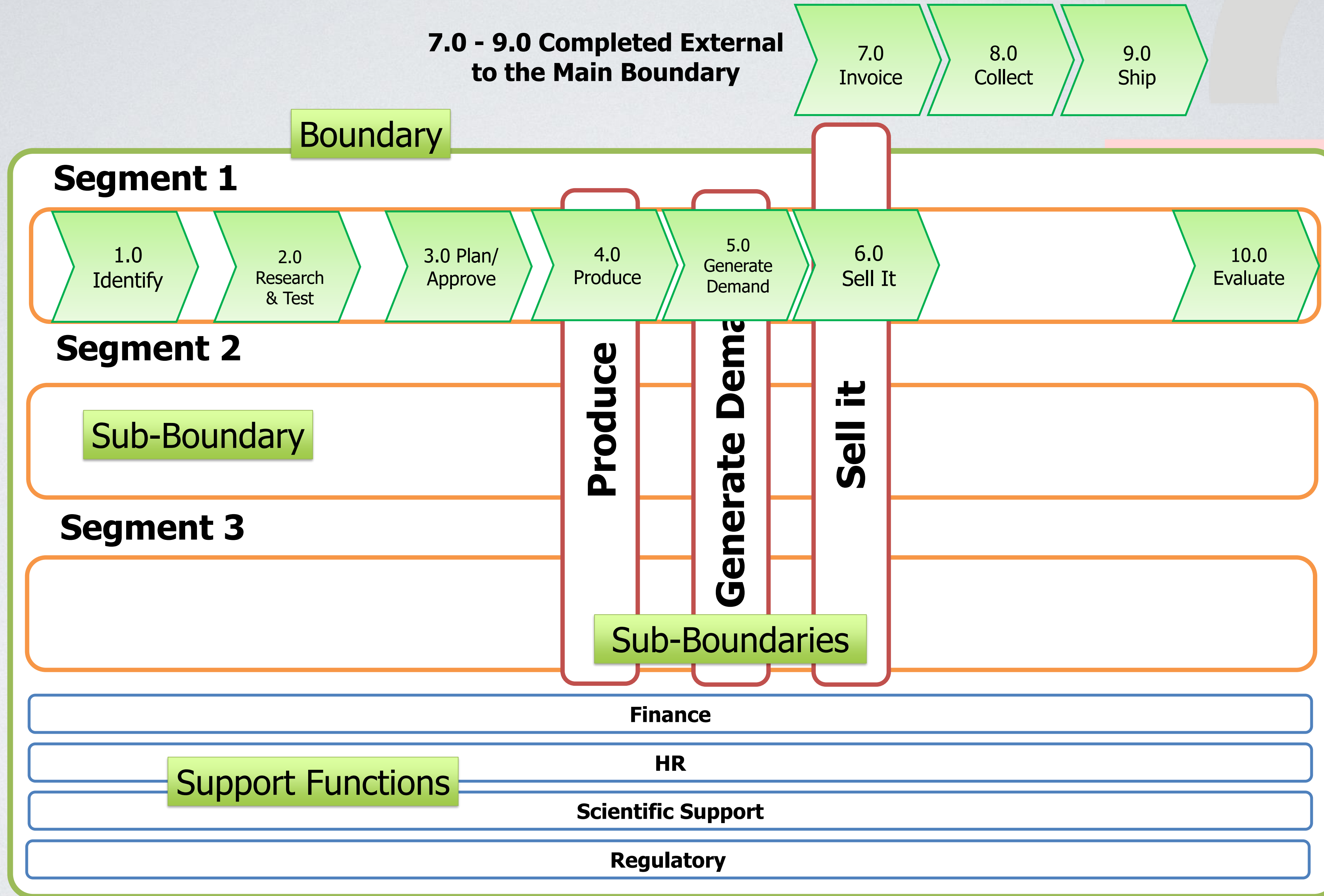
OTM **Wisdom** – Structure

Businesses are often way over-fragmented, over-specialized

Start structure work with putting boundaries around value work

The more boundaries in an organisation, the more fragmented an organisation becomes, increasing the risk of over-specialising

How the customer explained it

How the Project Leader understood it

How the Analyst designed it

How the Programmer wrote it

How the Business Consultant described it
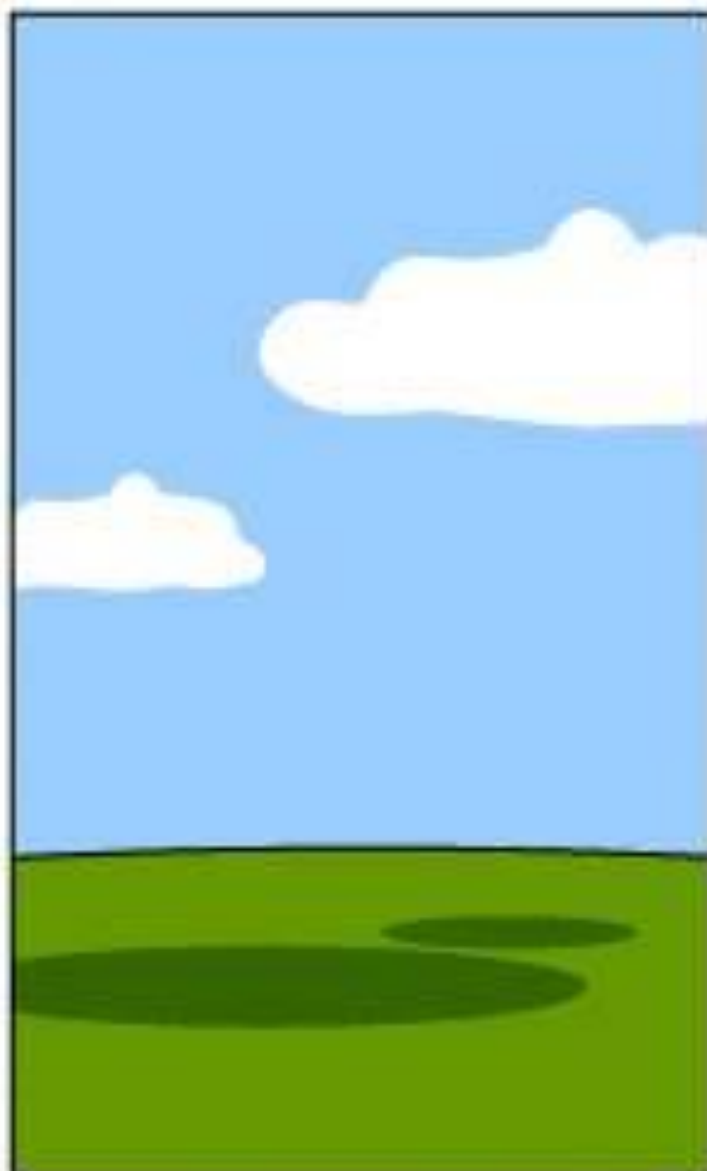
How the project was documented
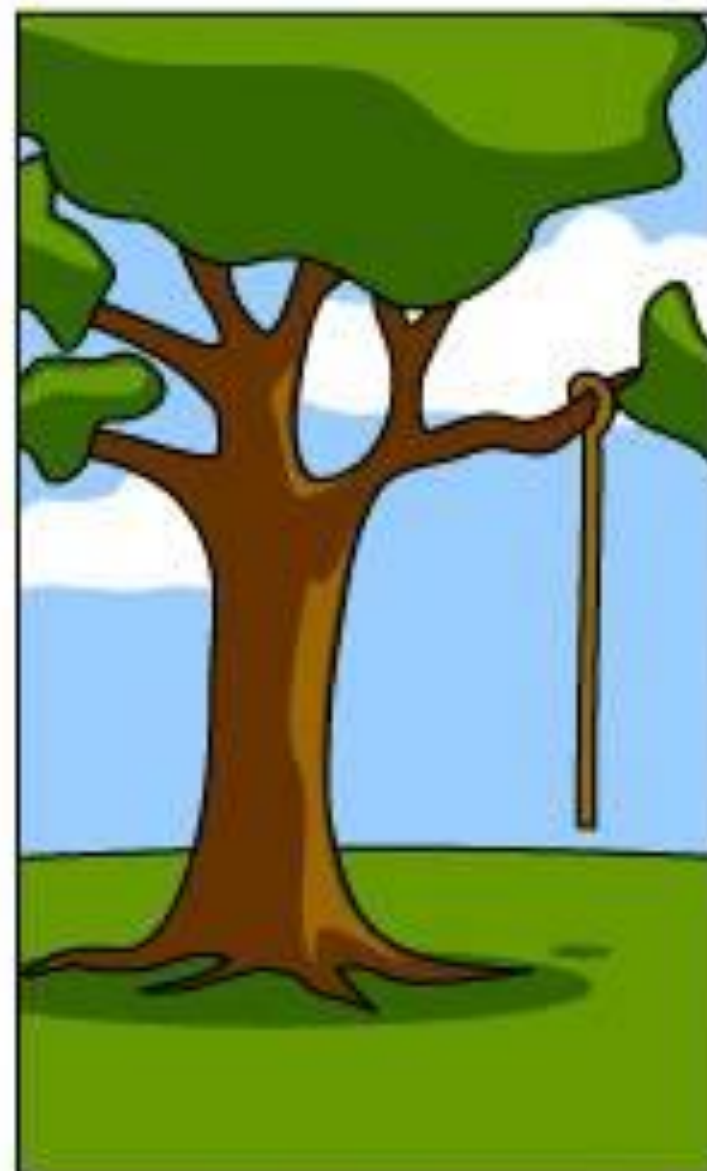
What operations installed

How the customer was billed
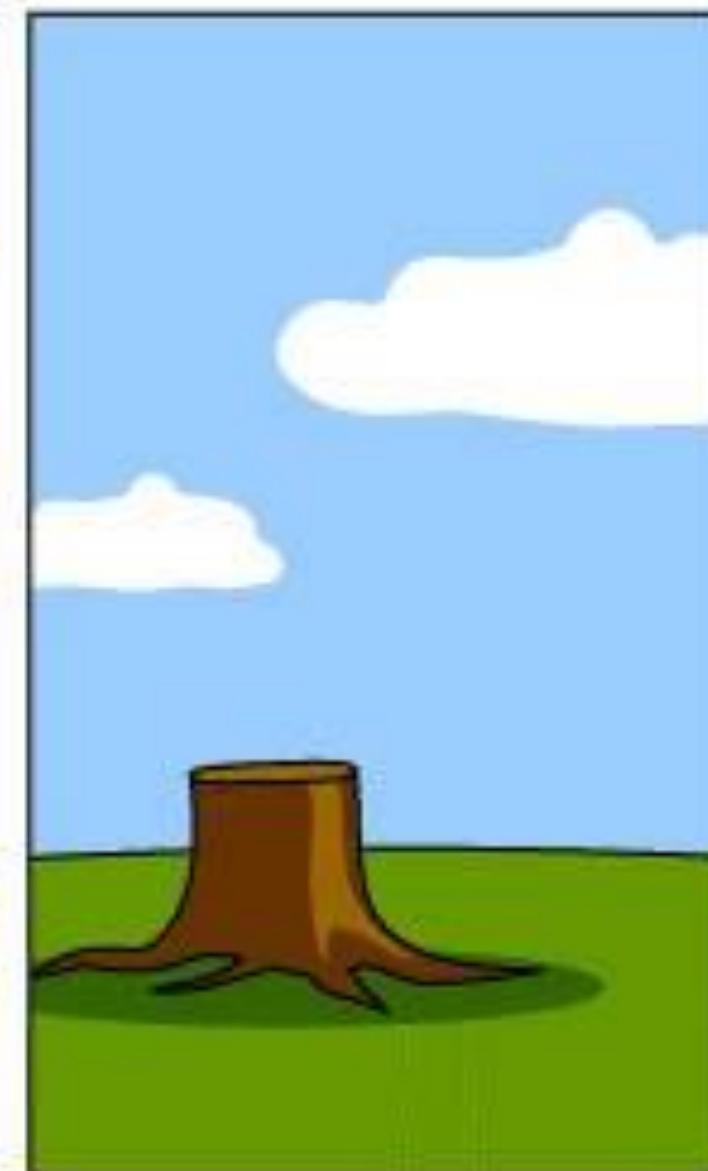
How it was supported

What the customer really needed

4. Management Mechanisms/Systems – its effect on performance

a. Develop management roles and/or assign management activities appropriately.

b. Choose matrix roles sparingly.

c. Decide if management roles do real work and/or manage.

d. Stay true to shape requirements

e. The more levels of management you have, the less front line is empowered.

f. Be clear about governance and decision authorities

4. Management Mechanism & Systems

Management mechanisms consists of:

- Management Roles
- Information flow,
- Governance,
- Risk and Compliance,
- Metrics/scorecards and reporting
- Decision Making,
- Reporting structures and org charts,
- Technology.

Example of Current Management Mechanisms

OTM WISDOM: The more fragmented a design the more effort and resources invested into coordinating and integrating activities to 'glue' parts together both vertically and horizontally.

Region	Total # Identified	Most Common Type	Most Common Method	Average Effectiveness (Low 1 – 5 High)
Head Quarters	46	Info Sharing	Meeting	2.8
Western	16	Info Sharing	Meeting	3.5
East	18	Info Sharing, Operational	Meeting	4.1
Central	24	Info Sharing, Operational	Meeting	3.7
Southern	16	Info Sharing, Decision Making	Meeting	3.4
Northern	23	Info Sharing, Affiliation	Meeting	2.8
Overall	143	Info Sharing	Meeting	3.4

Types of Integrating and Coordinating Mechanisms

Effort and Resources →

Matrix Roles
- Dual reporting

Horizontal Roles
- e.g. Project Manager, Dept. Manager

Formal Overlay Teams
- Project Teams
- Customer Teams

Integrating Roles
- Overlapping Membership
- Liaison Roles

Meetings
- Committees
- Councils

Information Systems
- Knowledge Sharing
- CRM
- MIS

Processes – Standard
- Governance
- Planning
- Problem Solving

Informal Mechanisms
- Interdepartmental
- Co-location
- Networks
- Rotations

Organisational "Glue"
- Standard Processes
- Common Goals/Measures
- Performance Review

← Formal

OTM **Wisdom** – Mgmt. Mechanisms

Spend time and effort managing then doing real work
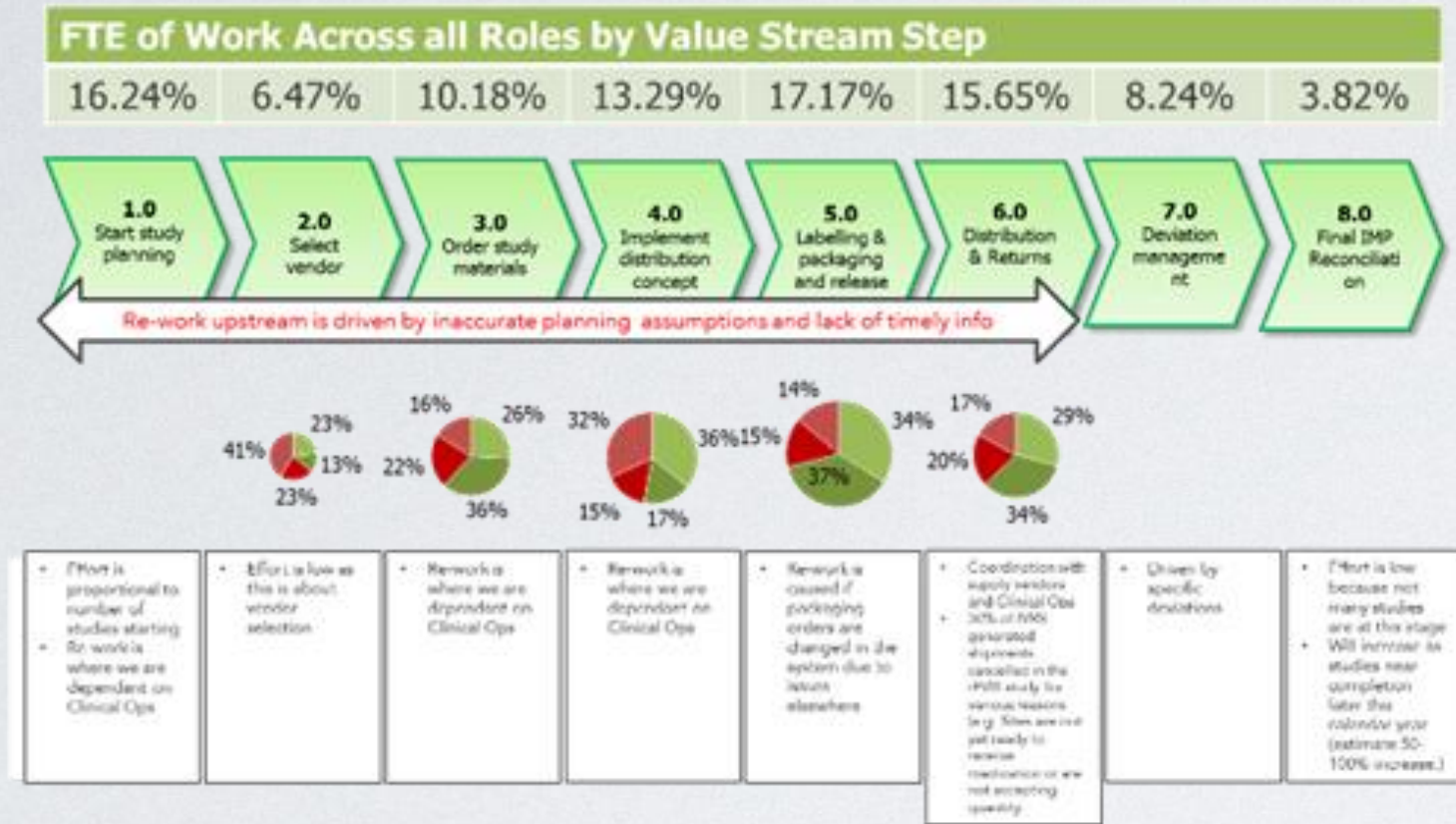
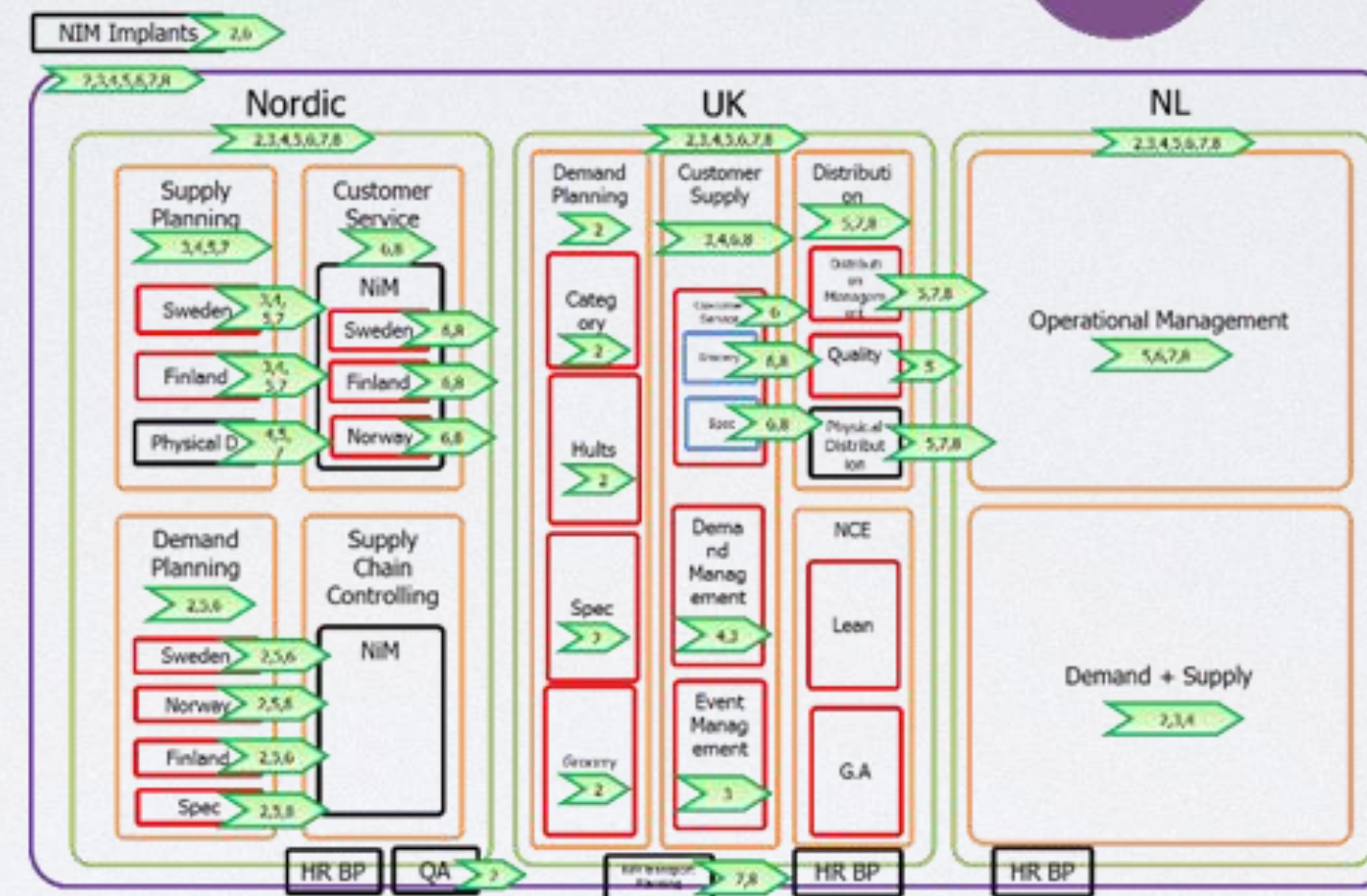Management roles are not real work; necessary waste but not value

The more fragmented the business, the more glue is required….
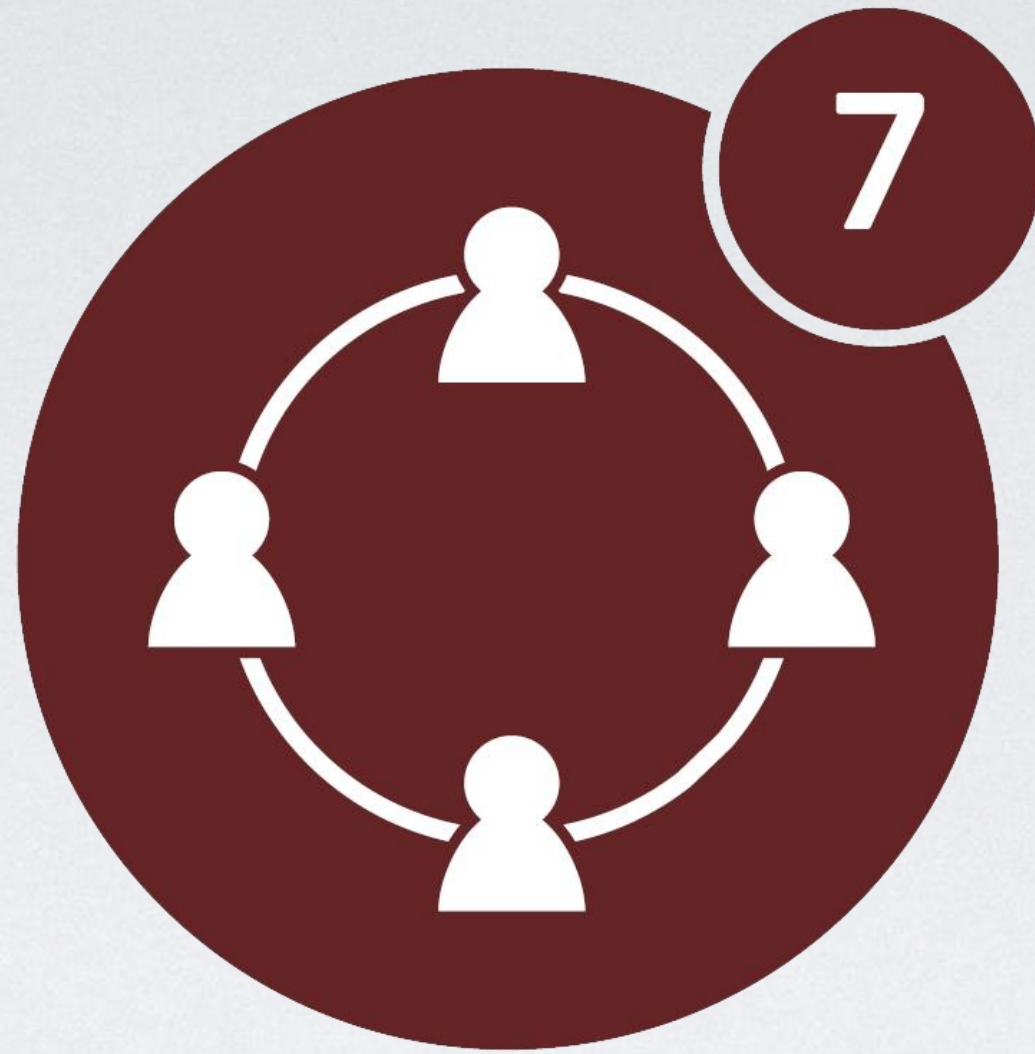
Core of the Work System

7. Culture – its effect on performance

a. "Patterns die hard." Interrupt <u>and</u> replace the patterns.

b. Ensure your design sets up the right conditions for the desired behaviours.

c. Reinforce desired behaviour.

d. Understand the "brain at work"

e. Err on the side of putting into action every chance you get over glossy pictures and words
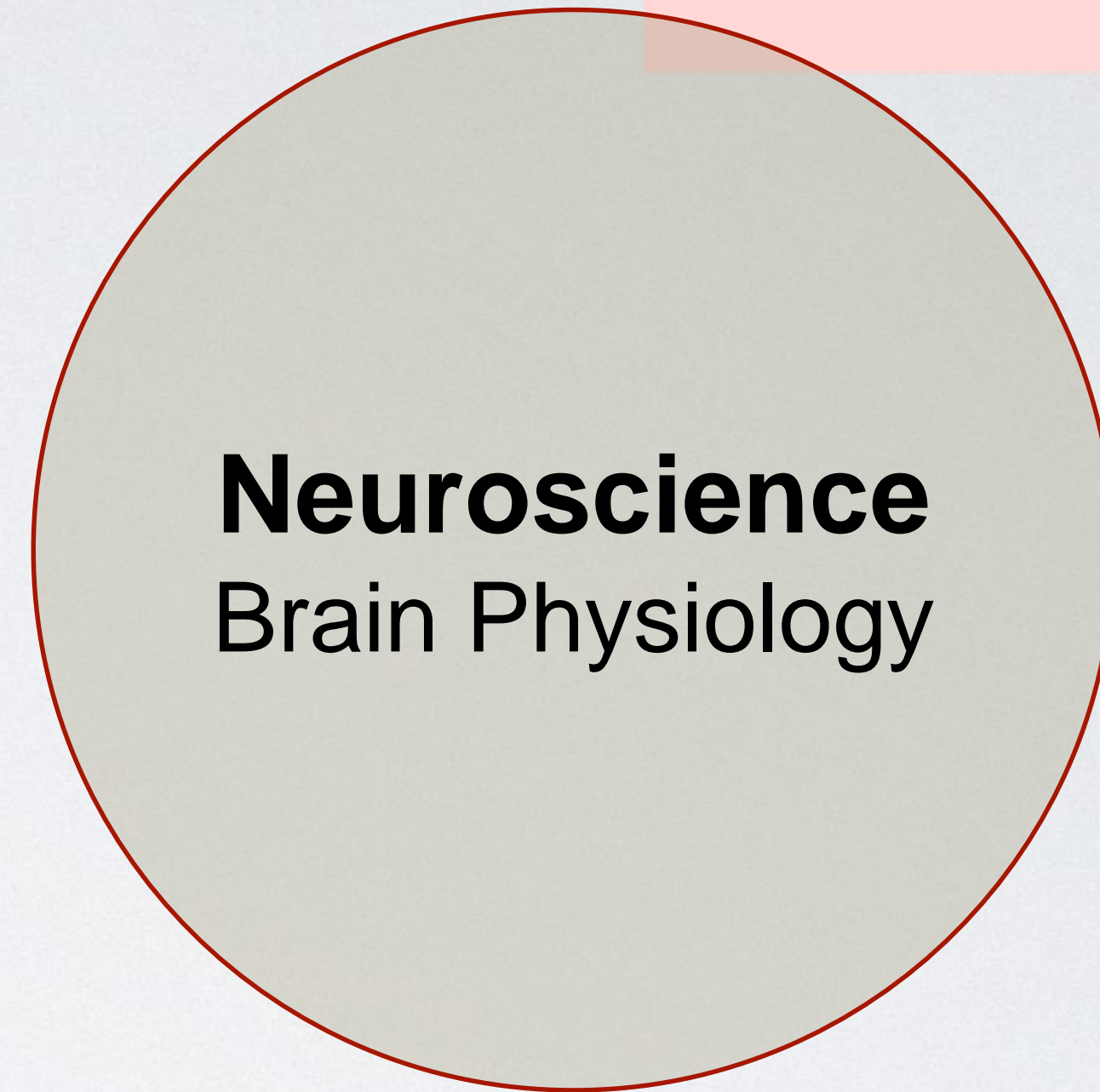   on the wall (design compatibility).

7. Organizational Renewal/Culture

Consists of:

⌐ Expected ways of working and behaviour that align with new operating model

⌐ Social attributes – help others understand what you need and want from them.

⌐ Model it. Stop talking about it and demonstrate through actions. Apply "design compatibility" to the redesign process.

⌐ Consequence management for leaders/staff unwilling and/or non-conformance.

⌐ Decide where, when and how much you want to "develop" vs other options

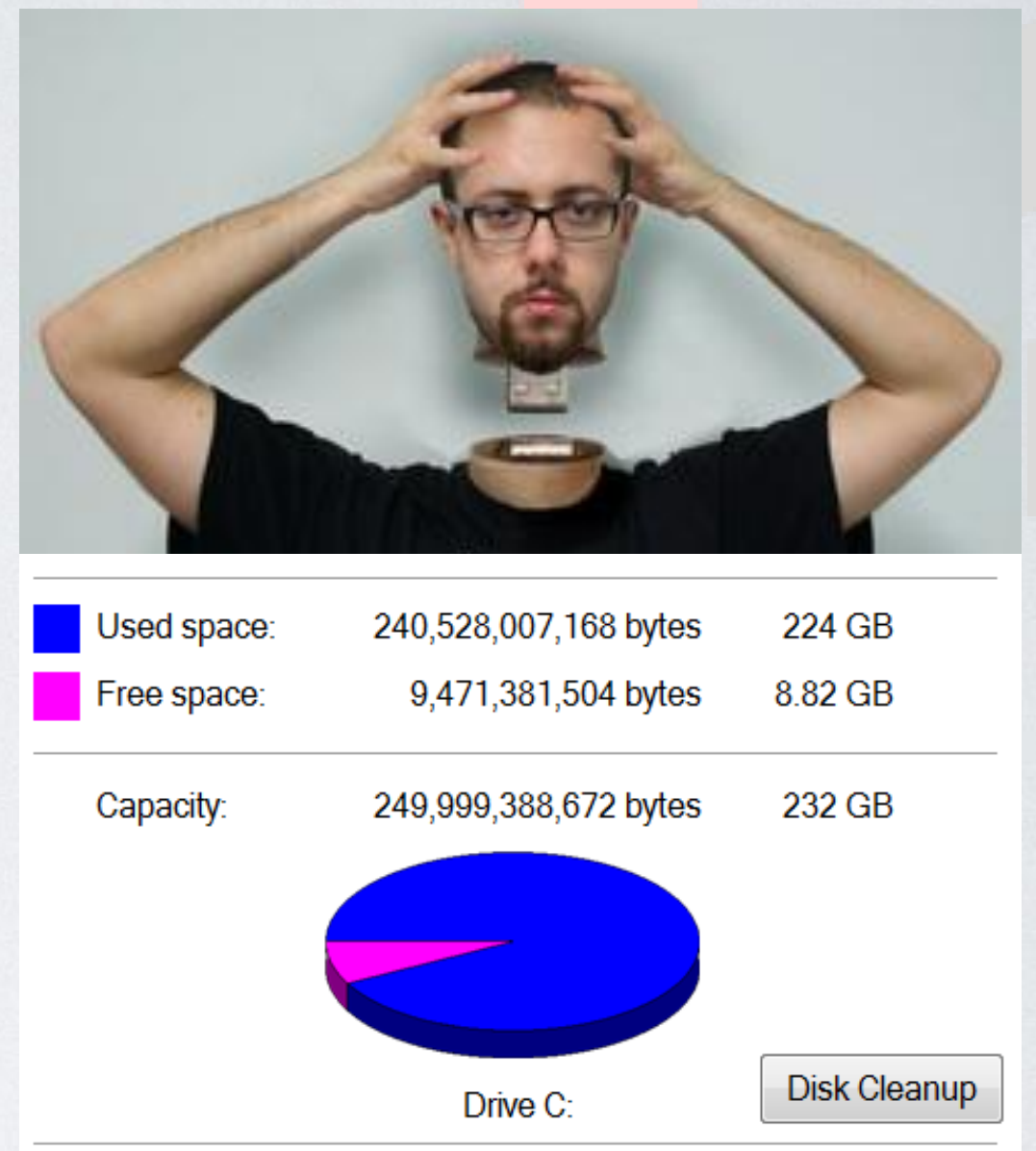⌐ Assigning roles vs "lift and shift" – both create opportunities. Think through…

Your **Brain** at Work...

Psychology
Human Mind + behaviour

Neuroscience
Brain Physiology

The brain's role in human nature and behaviour

Your **Brain** at Work

1 Effort = Energy

2 Repetition

3 Temporary storage with limited capacity

■ Used space:	240,528,007,168 bytes	224 GB
■ Free space:	9,471,381,504 bytes	8.82 GB
Capacity:	249,999,388,672 bytes	232 GB

Drive C: Disk Cleanup

4
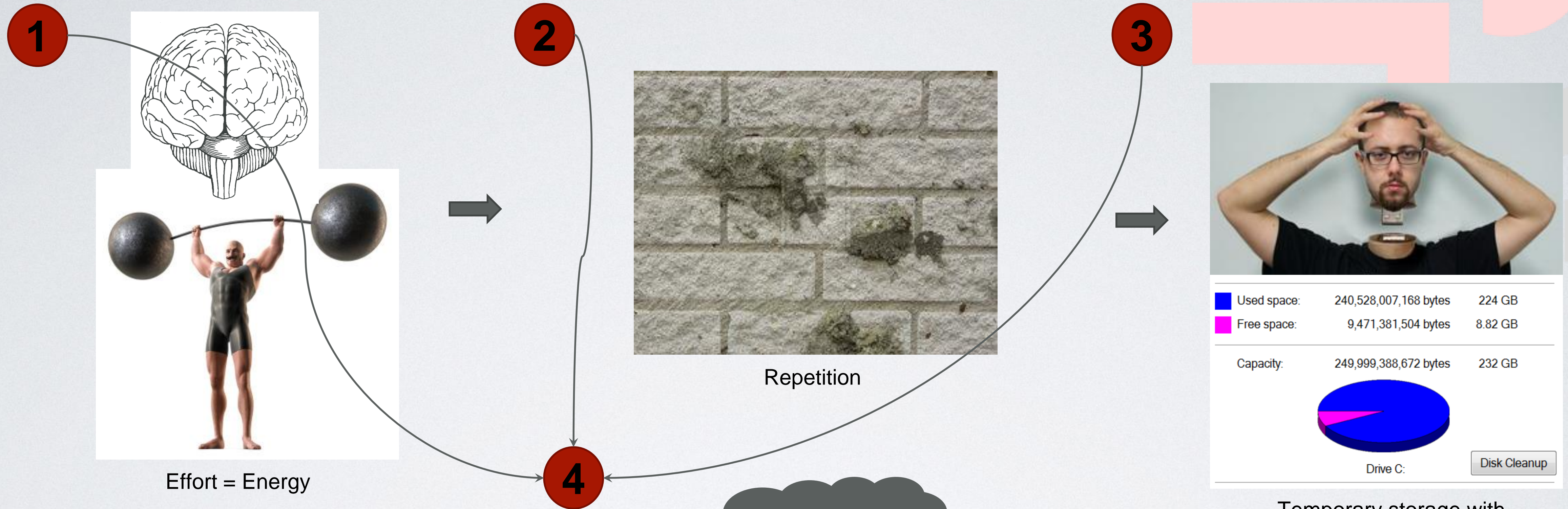
"Patterns die hard"

"Nothing changes until behaviour changes"

The Brain At Work

1. Perception of Social Pain

- Rejection
- Shaming
- Embarrassment
- Berated
- Unfairness/ disrespect

=

2. Observation of Social Fairness & Respect

Chemical boost

3. Stress
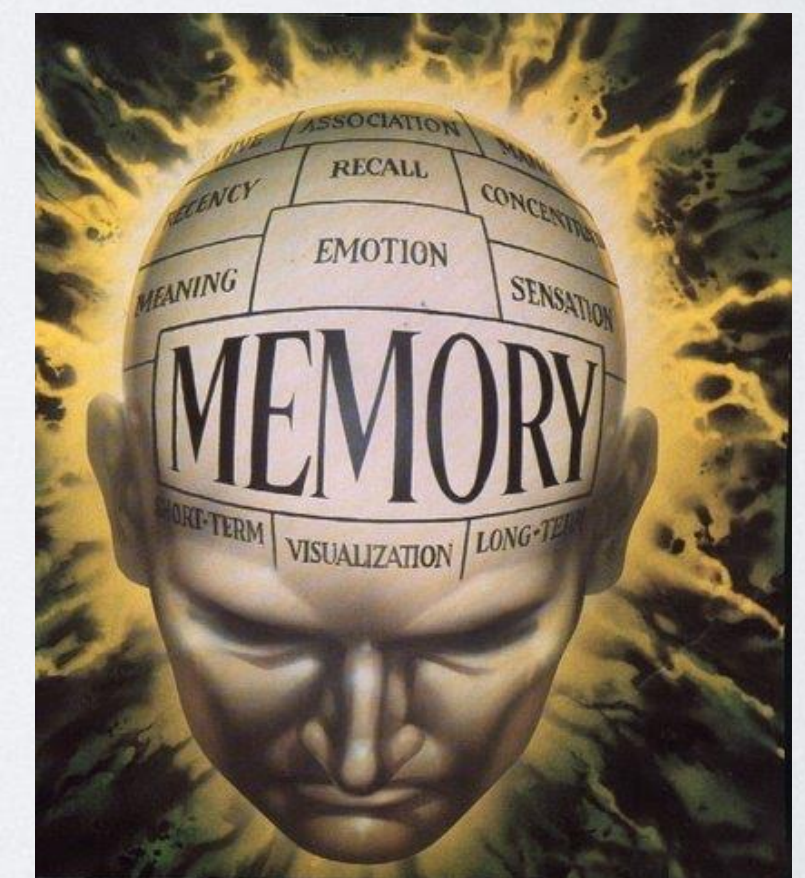

Unclear thinking

4. Uncertainty

Fear

5. Employees +…

Ownership over situations and choice…

6. Engaging & Active Participation

Increased retention of new behaviour

Webinar Summary and Closing

1. Business performance is enabled by its operating model (conditions).

2. Most business' operating models today are unfit for purpose.

3. Messing about with shape is not organization design.

4. Look at all improvement projects in play right now around the OTM STAR.

5. Changing an operating model requires a comprehensive, integrated and holistic solution looking at the alignment and fit of all parts of a business together.

6. Jump start the cultural renewal process by involving your people in the design process and engaging their genius.

7. Help your staff internalize the reasons for change and your intended purpose. They become business owners. Be careful what you ask for.

Open **Positions** at OTM

Position	Job Description Link
Senior Consultant – UK/EU based	
Support Consultant – UK based	www.on-the-mark.com/careers

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