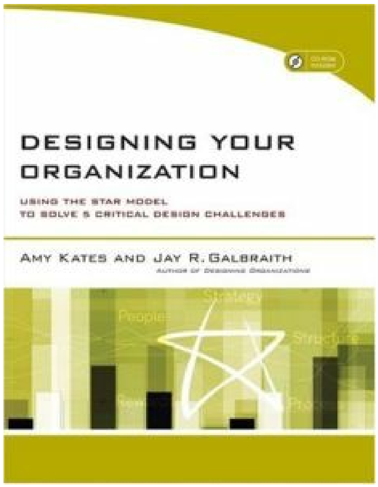

Book Designing Your Organization

Using the Star Model to Solve 5 Critical Design Challenges

Amy Kates and Jay R. Galbraith
Jossey-Bass, 2007

Recommendation

Organization consultants Amy Kates and Jay R. Galbraith have produced a big book – big in its scope and in its potential to influence management thinking in five key areas. Beginning with a primer on organizational design, the book focuses directly and insightfully on some of the major questions facing everyone from entrepreneurs in their garages to CEOs in their corner offices: How can companies best serve customers? How can firms effectively serve clients domestically and in foreign markets? How can you adopt what is best about a matrix structure without gumming up the works? How much centralization is too much, and how much decentralization is too little? How can companies, especially those that are already successful, promote innovation? In chapters packed full of considerations, suggestions and actionable ideas, Kates and Galbraith steer you through complexity. Unfortunately, by trying to integrate wide-ranging ideas with a reliance on their “Star Model,” they introduce a bit of complexity of their own: The Star Model clearly has value as a consulting tool, but in this text, it often seems present by default rather than by necessity, a condition that the authors would never tolerate in an organization. Nonetheless, *BooksInShort* recommends this book as a guide for anyone who makes decisions or gives input on structuring an organization. This is one of those books to keep handy on the shelf and return to when approaching a big change or reacting to an emerging problem.

Take-Aways

- Don’t leave your “organization design” to chance; it should reflect your core strategy.
- Consider your firm’s “capabilities, structure, processes, rewards and people” in implementing your organization design.
- To be “customer-centric,” align your company to serve your clients; use customer teams to devise solutions, not to sell products.
- Expanding your firm overseas can help you capture a separate market, acquire new business capabilities or refresh management practices.
- Elements of a matrix-style organization can improve collaboration in enterprises where teamwork already thrives.
- Beware of matrix structures that bog down decision making and cause workers stress.
- Centralization saves money, but too much of it can stifle innovation and motivation.
- The right amount of decentralization helps front-line workers serve clients better; employees have the freedom to react quickly to changing environments.
- Designing for innovation means separating the innovation team from the rest of the firm.
- Help your innovators bring good ideas back into your company.

Summary

“Organization Design”: A Crash Course

Organization design allows your firm to reach its full potential through the intentional and strategic alignment of its core elements. It helps you replace the old-school, shoot-from-the-hip approach to running a business with a methodology that ensures success. Good design will help your enterprise promote good work: When people have to find ways to circumvent obstacles caused by organizational flaws, they waste money and time.

> “The organization is not an end in itself; it is simply a vehicle for accomplishing the strategic tasks of the business.”

To start using the organization design framework, take your company strategy as the underlying rationale that drives your decision making. Once your company’s strategy is clear, you can prepare to implement organization design, which requires attention to the five critical, coordinating aspects in the life of a company that make up the "Star Model":

1. **"Capabilities"** – Start by defining the competencies your firm possesses or wishes to achieve – those competitive advantages in products or services that set you apart in the marketplace.
2. **"Structure"** – Next, assess your firm's optimum structure, which takes into account how leaders and managers will exercise "formal power and authority." You can base your firm's structure on "function, geography, product [or] customer," depending on your business's size, locations and product diversity.
3. **"Processes"** – The procedures you set in place will determine how information flows in your firm. Silos exist in every enterprise, but you need to ensure that work processes facilitate the movement of information smoothly and efficiently. Promote "lateral connections" to encourage communication among different business units.
4. **"Rewards"** – Consider how to motivate your staff to work for the benefit of the entire company; your reward system will speak loudly and clearly to employees about what the company really values and where it wants to go.
5. **"People"** – Your HR practices for "selection, staffing, training and development" will direct efforts in assembling the right people to execute your strategy within your organization design. A well-chosen workforce delivers the "capabilities and mind-sets" that help the company advance its strategy.

"Designing Around the Customer"

"Customer-centricity" is a relatively new phenomenon, but it has had a huge impact on the way some companies organize themselves. All firms take care of their customers and emphasize customer service. But "customer-focused" does not equal "customer-centric." A customer-centric approach brings customers on board, often literally – allowing clients to influence not only product or service design but also the way the firm organizes its employees and operations. A customer-centric strategy relies on integrating the different aspects of the Star Model.

> "The design goal should be to keep the organization clear and simple for customers and the majority of employees."

To move to customer-centricity, you may need to add some new professional roles to your staff, such as "customer teams" and "relationship managers." Additionally, you might need to leverage technology to track and measure the ways in which customers interact with your company. Make sure this information finds its way into the hands of your company's leaders.

> "It is the job of leaders and managers to manage the complexity that is created by the organization's design."

In a customer-centric business, those who interact with clients are no longer trying to sell a product. Instead, they are helping customers address a problem with solutions best suited to their needs, moving from "transactional selling to...relationship selling." A customer-centric approach is a way to beat your competitors. Customers know a lot more than they once did – and if they do business with your company often, they want you to know it and even reward it. They seek "customization" for their unique demands, "experience-driven buying" to make purchasing enjoyable and trusted advisers who will help them find the right solutions.

> "The organization's strategy is the cornerstone of the organization design process. Without knowledge of the goal, no one can make rational choices along the way."

You can dip a toe into a customer-centric approach or go all in: A "light" customer-centric approach might mean simply setting up a focused team for your biggest customers who want a coordinated response. A "medium" approach adds another layer to the team – an "account manager" or "customer relationship manager" who organizes the interplay of products, services and solutions. You can also choose to pursue an "intensive" model, which means devoting the "front" of your organization entirely to the customer, while the "back" supports your product functions. Front-end units essentially buy "products from the back end on behalf of their customers." For example, Procter & Gamble serves Tesco, a British supermarket client, with account managers in P&G's European unit, while P&G teams in "beauty and health" and "household" product areas support them.

"Organizing Across Borders"

Reasons abound to consider moving your business into new countries. Home markets are often crowded, so one option is to seek growth elsewhere. Additionally, courting different clients in a new part of the world can give you access to novel products or brands, fresh R&D, and "advanced management and human resource practices."

> "The Star Model provides both a decision-making framework and a starting point to help leaders think about the interaction of strategy, structure, processes, rewards and people."

If you're considering going global, think about how you will organize your company. Start with how you plan to proceed; you can either build up slowly and "organically" or work through an acquired business. Keep the new international arm of your firm simple: Have a "country manager" lead business in a specific nation or group of nations. Build two kinds of processes: those that knit the international units and the home base together, and those that allow each spin-off to communicate and send new information back to headquarters. The former allows for the "transfer [of] capabilities to the new geography"; the latter leads to flexibility that enables the new unit to thrive.

> "A matrix is designed to surface conflict; it is intended to bring different strategic points of view into contact with one another."

Think about the staff you deploy to lead global expansion. The "expatriate" managers you drop in from the home country must ensure that specific company knowledge shifts to the new unit, and they should bring expertise that is "not available locally." Hire your workforce's "local nationals" from your new location. Let them sharpen their skills, and groom the most promising for your expatriate team.

Enter the Matrix

A matrix-style work environment is difficult to pull off, yet tempting to consider when managing a complex business. At its best, matrix management promises to bind the organization together, creating new reporting relationships and spurring collaborative activity. However, a matrix best fits a company that already boasts a successful, team-oriented framework.

> "In general, the more tightly focused the portfolio, the more value can be added by the corporate core. The more diverse the portfolio, the harder it is to add value from the center."

Essentially, a matrix gives some employees "two (or more) bosses representing different organizational objectives." Those bosses serve diverse aspects of the operation that may have different immediate goals. A matrix organization can save money – for example, you might stretch a worker over two states simply by creating a dual reporting relationship. You can also use a matrix in a global context, where employees in separate countries might need to develop strong collaborative bonds.

> "Structure by itself does not create innovation."

A matrix is a tool to promote sharing and cross-fertilization. It allows people to take "multiple business perspectives into consideration." It is also a talent-building mechanism to ensure that up-and-coming employees don't get stuck in one area of the company, but instead can redeploy to work in the area that needs them most.

> "The innovating organization has to be able to encourage the interaction of divergent perspectives in the organization (and even beyond) in order to mesh the ideas and skills that will result in workable ideas."

On the flip side, a matrix can weigh down an organization and lead to tangled arguments across business units. Matrix managers must communicate and negotiate to arrive at decisions, but the time it takes to get there can hurt a business. And don't forget the human cost – having to report to more than one person, or having to chart a course through more than one department, can take a stressful personal toll.

"To Centralize or Decentralize"

The decision to centralize or decentralize should form part of your strategy. Centralization takes certain functions out of the hands of business units and puts them into a "corporate center," while decentralization pushes activities down into operating units. Centralization and decentralization present both pros and cons. When you centralize, you gain some immediate benefits: cost savings and consistent procedures and expertise across the organization. Likewise, decentralization has its perks, allowing managers to innovate quickly in a fast-paced world. But excessive centralization can lead to slow, grinding processes that stifle managers, and too much decentralization might mean lots of innovation and ideas but a loss of the scale that comes with size.

> "Entrepreneurial activity needs its own space in order to flourish."

Examine your business procedures to determine the level of centralization or decentralization they could use. If, for example, you need to standardize a repeated activity, centralize it. Some decision making might fall under this umbrella, not to take away individual input but to ensure that your firm has evolved a "decision framework" at the right level. Centralization can help create a "common culture after [an] acquisition."

> "The unit of innovation is not the individual genius working alone but rather the network that connects research and development, marketing, and production within the company, as well as the larger connections that employees maintain to customers and partners outside the company."

Decentralization also has merit as an organizing principle. If your company does different kinds of business with different customers, allow your people on the ground to enjoy a degree of autonomy: The ability to make their own decisions and to see how those decisions affect results can motivate your team. People do more – and more quickly – when they don't have to check in with a huge bureaucracy. If your staff doesn't have the authority to respond fast enough, they might lose clients. The same holds true for innovation: If people can react rapidly, respond to local input and experiment, an innovative spirit will take hold more readily.

> "Complexity cannot be avoided, but it can be intelligently designed and managed."

To determine your firm's best place on the "centralization-decentralization spectrum," begin with a decentralized approach in order to honor the work of employees who are closest to customers and results. Centralize anything that gives off the scent of a "compliance activity" like audits or reporting. Additionally, consider centralizing (slightly or totally) anything that is not specific to each business unit or that organizations must share across all units. At its best, centralization doesn't create a bureaucratic bog but a "coordinating mechanism" that disperses critical knowledge and sets policy guidelines that affect everyone.

"Organizing for Innovation"

Today, organizations are confronted with a demand for growth that leads them to acquire other firms, expand their current offerings or seek a "breakthrough" product. But remember that inventing a "business model" or a "business process" is as valid as creating a new product; Dell innovated by altering the manufacture and distribution of personal computers, not by inventing a new PC. You can add fresh, original features to your existing products, or you can seek something brand new. As an invention slides along the scale of innovation toward the major breakthrough end, you can accumulate more rewards, which, of course, implies more risk, particularly to the ongoing operation of your company. Therefore, nurture breakthrough innovations by separating them from your firm's bread-and-butter activities. The trick is to create a connection back to the more established business – the new product will need the resources of the old business if it is to launch and succeed. Unless external market practices demand another approach, compensate teams working on innovation as you do employees working in core activities; otherwise, you risk creating internal tensions and making the reintegration of innovations into the company more difficult.

About the Authors

Amy Kates is a partner in Downey Kates Associates, a firm specializing in organization design. **Jay R. Galbraith** is a senior research scientist at the Center for Effective Organizations at the University of Southern California.