Strategic Organization Design
Sabine Haine et Jocelyne Robert

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Objectives

- At the end of this lecture, you will be able to
  - Understand and explain key basic concepts around organization in the corporate world
  - Understand what organization design is about
  - Understand how strategy influences the design of an organization
An organization is an **entity** that has a collective goal and is linked to an **external environment**.

- derived from the Greek word *organon*, itself derived from the better-known word *ergon* which means "organ".
There are a variety of types of organizations:

- Corporation
- Government
- Non-government

- National
- International

- Profit
- Non-profit, Charities

- Cooperatives
- Universities
- Political
Organization design is not Architecture
It is not only about structure
Organization design is about aligning 6 elements

- Strategy
- Structure
- Process
- Culture
- People
- Systems, Resources
Strategy is labelled in a Mission defined by the Leadership
What is the difference between these 3 missions?

**Ryanair**

Offer low fares that generate increased passenger traffic while maintaining a continuous focus on cost containment and operating efficiencies.

**Unilever**

Add Vitality to life. We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life. 
*(Brands: Lipton, Knorr, Persil, Dove)*

**Bayer**

Willingness to be an inventor company to help shape the future and determination to come up with innovations that benefit humankind.
Organizations can choose between 3 types of mission

Based on “Value Disciplines” from M. Treacy & F. Wiersema (1994),

- Typically organizations choose 1 single strategic intent to excel at.
- Still they achieve industry standards at the remaining 2.

Product Innovation Leadership
You win because the market perceives your brand as having the cutting-edge (often overkill) products with superior features – justifying premium prices.

Comme chez Soi (2 étoiles Michelin 2013)

Good traditional restaurant

Caterer

Mum

Customer Intimate Leadership
You win because you are so customer-intimate that you are already there when the customer need arises. You offer tailored solutions before the customers feel like shopping around.

Chinese delivery

Operational Efficiency Leadership
You win because the market perceives you as having the lowest prices. Based on cost and process efficiencies that still allow you to return profits.

Salon “Culinaria”

Foodstands on a market

Quick

Hot dog stand at football game
What is the difference between these 3 missions?

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**Operational Efficiency**
**Customer Intimacy**
**Product Innovation**
Apple is committed to bringing the best personal computing experience to students, educators, creative professionals and consumers around the world through its innovative hardware, software and Internet offerings.

We save people money so they can live better.

At Nordstrom, our goal is to provide outstanding service every day, one customer at a time.
Corporate titles or business titles are given to company and organization officials to show what duties and responsibilities they have in the organization.

- The highest-level executives in senior management usually have titles beginning with "chief" and are therefore usually called "C-level" or part of the "C-suite".

The traditional three such officers are

- chief executive officer (CEO)
- chief operations officer (COO)
- chief financial officer (CFO)

But also following officers can exist:

- chief information officer (CIO) (more recently: Innovation), chief technology officer (CTO), chief risk officer (CRO), chief marketing officer (CMO), chief creative officer (CCO), chief diversity officer (CDO).

French: PDG, Directeur-Général, Directeur, Manager
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Let’s talk about organization model / chart
Five generic organization models can be adopted or combined ("hybrid, matrix"), linked to the strategy
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A hybrid organization: the generic model used do change according to the different level in an organization.
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A matrix organization: This organizational type assigns each worker two bosses in two different hierarchies.

- One hierarchy is "functional" (provide expertise), the other hierarchy is “executive” (provide people management)
Operational Efficiency

What generic organization model do you recognize?

Hybrid of functions and services

How does strategy influence organization chart?
Operational Efficiency

How does strategy influence organization chart?

- No product variety to rationalize costs
  - « Fligh/Ground Operations » and « In-Flights »

- Focus on 2 key ‘C’ level function below CEO (who are also Deputy CEO):
  - CFO, responsible for the Finance (how much does the business costs)
  - COO, responsible for the Operations (the way the business is run)

- Though historically, airlines have focused on safety, aircraft technology, speed, geographic reach, and in-flight service attributes, no ‘C’ level representation (“Engineering”)

- Still a flat structure (only 2 to 3 level below the CEO, where ‘C’ level and ‘non-C’ level interact)

- Combined roles (e.g. Flight & Ground Operations)
Customer Intimacy

What generic organization model do you recognize?

CEO
  - President Personal Care
  - President Refreshment
  - President Home Care
  - President Food

Hybrid of functions products and geographies

President North America
  - President Europe
    - President North Asia
      - President South East Asia AustralAsia

How does strategy influence organization chart?
Customer Intimacy

How does strategy influence organization chart?

– Hybrid to really understand the various client profile and needs
  • Geography: North America, North Asia, Europe, South-East Asia, Australasia
  • Product: Foods, Personal care, Refreshment, Home Care

– Appointment of a CTO (Technology)
  • « How can technology be used to further improve the quality of life for 100% of our consumers? »

– Chief Supply Chain Officer main duty:
  • Make sure that client demand fulfillment stays close to each market
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Let’s talk about Activities and Sourcing model
A Process is composed of Activities and Tasks

- Process ➔ Activity ➔ Task

What does the organization?

- In organization design, “sourcing model” refers to **Where** and **Who** should execute an entire process or specific activity/-ies:
  - Where: Onshore (same country), Nearshore, Offshore
  - Who: In house (internally) or outsourced (externally)
Organisations do select their sourcing model based on a set of criteria.

- **Criteria**
  - Business skills
    - Level / type of knowledge, repetitiveness, language of services
  - Volume of activity
    - Labour intensive process, flexibility or seasonality
  - Type of operations
    - Client facing or not, hours of service coverage
  - Costs
  - Social responsibility

- **10 Outsourcing Trends to Watch in 2015** on CIO.net
Tasks are used in organization design as the common denominator between the process (what?), the people (who?) and the structure (how?)

- Process $\rightarrow$ Activity $\rightarrow$ **Task** $\leftarrow$ Role $\leftarrow$ Job $\leftarrow$ Team $\leftarrow$ Organization

**Process (what?)**  **People (who?)**  **Structure (how?)**

**Example of a Company producing Italian dishes**

- **Step 1**: In organization design, in order to look for synergies, we would group similar tasks from different processes into the same role

  - Process “Prepare the pizza Al Funghi”
    - Activity “Prepare the garnish”
      - Task: Cut tomatoes
      - Task: Cut mushroom
      - Task: Cut cheese
      - ...
  
  - Process “Prepare the spaghetti Al Bolognese”
    - Activity “Prepare the sauce”
      - Task: Cut onions
      - Task: Cut tomatoes
      - Task: Cut beef meat
      - ....
Step 2: Several roles of the same nature are grouped into jobs, respecting SoD

- SoD stands for segregation of duties. It is an internal control designed to prevent error and fraud by ensuring that at least two individuals are responsible for the separate parts of any task.
  - e.g. the person responsible for purchasing should not also be responsible for its payment.

Step 3: Several jobs are grouped in teams taking into account span of control

- Span of Control is the number of subordinates that a manager or supervisor can directly control. This number varies with the type of work
  - e.g. Span-of-control 1:6 in complex variable work
  - e.g. Span-of-control 1:20 or more in routine or fixed work
Don’t overdo it…. 

Why the Neanderthals became extinct.
In summary

A good organization design makes sure there is a box for each strategic business priority.

A good organization design clarifies the reporting lines between each boxes and the ‘who does what’.

A good organization design applies a ‘just – enough’ approach.