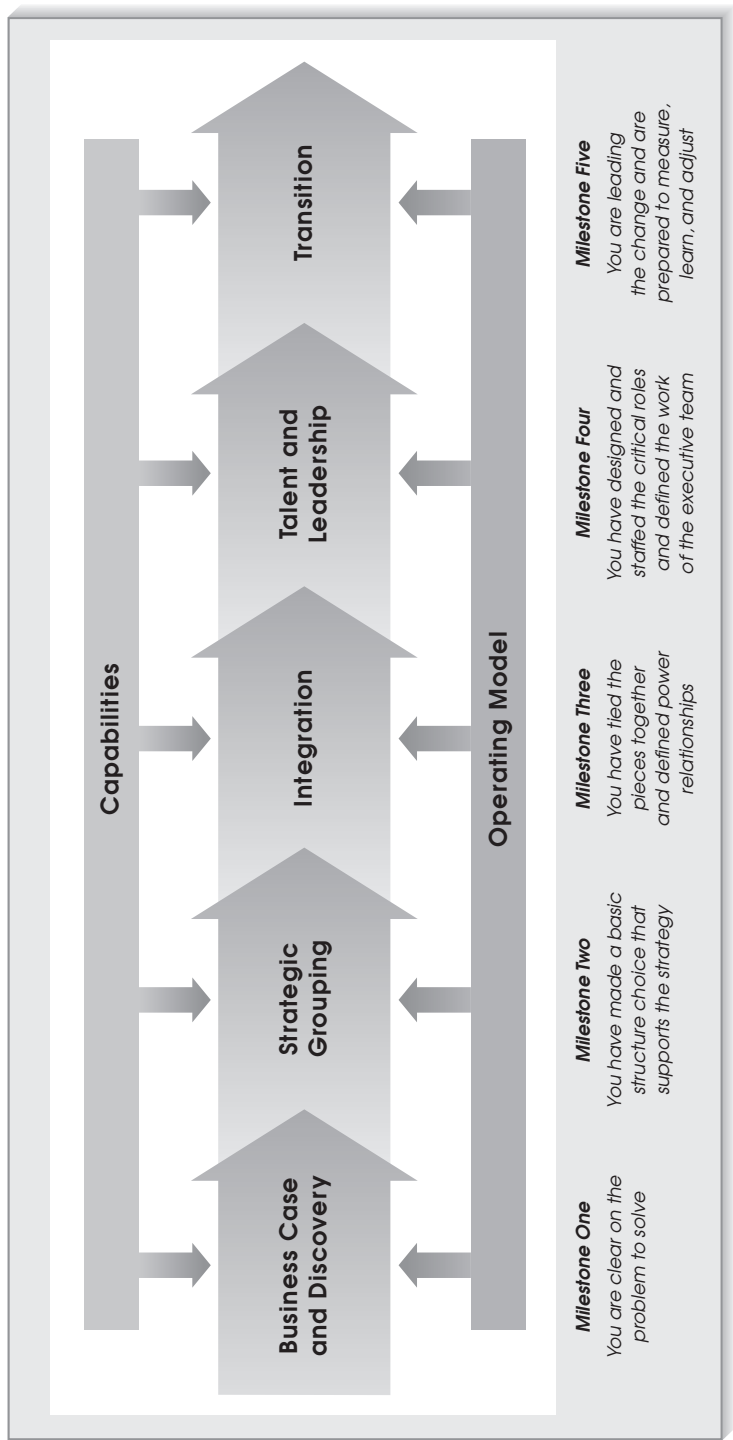


The Five Milestones

ORGANIZATION DESIGN WORK NEEDS A ROAD MAP. Although the process is not strictly linear, we have found it useful to think about five steps that we call the *five milestone process* of organization design. Each design project will have its own unique path, with iterations and digressions from the flow that we present. There is no foolproof recipe that one can follow step-by-step to design the three-dimensional and invisible construct that is an organization. Organization design is both an art and a science.

That said, having worked across a range of industries, countries, and cultures, and for companies, government entities, and nonprofits of all sizes, we know that organizations can learn from each other and can use the same powerful frameworks to develop their own tailored solutions. We have refined a process that works in a variety of settings for units ranging from a few hundred to forty thousand employees and more. The process is quite scalable to be effective at the enterprise level or within business units and major functions.

FIGURE 1.1. *The Five Milestone Design Process*



We use the word “milestones” deliberately to focus on outcomes rather than on activities. Milestones have been used since the Roman Empire as reference points along a road. They reassure travelers that the proper path is being followed and indicate either distance traveled or the remaining distance to a destination. In organization design, there are markers to indicate when one has finished a phase of decision making and is ready to move on to the next.

Figure 1.1 illustrates the five milestones model. The capabilities required by the strategy inform decisions regarding priorities and trade-offs at each milestone. Equally important is the operating model of the business—how closely related the parts of the organization are. The operating model affects the decisions made at each step by specifying how and to what degree the components need to be linked and integrated.

MILESTONE ONE: BUSINESS CASE AND DISCOVERY

Milestone: You are clear on the problem to solve

The first step to effective organization design is to build a business case for change. The business case is made up of the key elements of the strategy, an analysis of the current state of organization, and a clearly defined set of design criteria.

Sound organization design decisions depend on a *clear* strategy, as organization design is a first step in turning strategic thought into action. Anyone involved in the design process must *understand* the strategy and its implications, and *agree* that achievement of the strategy will lead to superior results for that company. If the strategy is vague, full of conflicting objectives, or so broad that it does not set out clear choices, it will not lead to a workable organization. If the strategy has not been explained and understood fully, stakeholders coming into

the design process will bring different assumptions that will lead to conflict rather than creativity. Finally, if those who must execute the strategy don't believe it will lead to a better future, then there will be little commitment to undertaking the hard work of organization change.

Once the highlights of the strategy are called out clearly, it is time to assess the current state and spell out the problem to be solved. The task is to assess the ability of the current structure to deliver the key elements of the strategy. This often means identifying gaps, but the organization problem is not always a gap. We work with many successful companies where the leadership of the organization defines a future change in the environment created by new technology, geographic expansion, or competitor moves, and initiates a proactive shift in strategy while the current business remains strong. The current structure is now misaligned to execute its new task. The “problem” in this case is to build new capabilities and create the organizational conditions that allow employees to do new work in new ways—likely with new behaviors.

Milestone One: Business Case and Discovery, contains three chapters to help you meet this first milestone.

Clarify the Strategic Priorities

There are many ways to think about strategy. For our purposes, we need a tool that will allow us to test if the strategy is clear, understood, and agreed on, and to begin eliciting the organizational implications that will guide design decisions. The *strategy canvas* tool is a particularly useful way to educate a group about the organization's strategy and ensure that there is alignment on the major elements. We like it because the concept is quickly understood by a group, is easy to work with, and focuses on building future capabilities that differentiate

an organization. The tool was developed by W. Chan Kim and Renee Mauborgne (2005) as part of their work on what they term *blue ocean strategy*, and we will show how to use this framework in organization design.

Define the Case for Change

Once we are clear on the strategy, we need to determine what changes in organization will create new capabilities. To build a compelling case for change, it is critical to complete a current-state assessment that includes financial data, customer feedback, and analysis of the issues and opportunities, gathered through interviews and focus groups with leaders and employees in the organization. The six *design drivers*—management attention, leveraged resources and cost, coordination and integration, specialization, control and accountability, and learning and motivation—serve as a construct for analyzing the strengths and weaknesses of the current state against the business plan. The drivers also help identify options for change. They make it easier to call out the inherent trade-offs and tensions that exist in any organization design.

Set the Design Criteria

To gain the most benefit from a change in organization, it is best to go beyond fixing today's problems and to think about capabilities needed twelve to thirty-six months into the future that will differentiate the business from its competitors. The capabilities become the design criteria against which we test all options. This practical and positive focus on creating strength is motivating and engaging for the design team and employees, and encourages expansive thinking that often results in more creative ideas than a problem-fixing approach allows.

Getting the design criteria right helps deliver better outcomes through all five milestones of the process. At every step, the design criteria inform decisions. They determine what basic units of organization will be most effective and what business processes, cross-functional teams, and forms of power allocation and governance will be required to bring the structure to life. The design criteria also inform role definition, staffing criteria, and the work of the new leadership team. Finally, during the transition step, the criteria are the way we measure progress. Are we establishing an organization that delivers the capabilities the business requires?

MILESTONE TWO: STRATEGIC GROUPING

Milestone: You have a basic structure choice that supports the strategy

Once the business case is spelled out, the next set of decisions in the design process defines the basic structure of the organization. Put another way, what basic grouping of work do we believe will best create the capabilities necessary to deliver the strategy? These decisions determine, in effect, the major blocks of work that will be managed by the top leaders in the new organization. Understanding the options for strategic grouping and the trade-offs among alternatives is essential to making good organization design decisions. Getting the strategic grouping aligned with the strategy makes the rest of the design task much easier.

Milestone Two: Strategic Grouping, contains three chapters to help you meet the second milestone.

Use the Six Design Drivers

This chapter outlines the classic options for organizing on the basis of functions, geography, product, and customers. Selecting

and blending the approaches to grouping create capability. The six design drivers serve as a practical way to assess the risks and benefits of alternative structures. The drivers are management attention, leveraged resources and cost, coordination and integration, specialization, control and accountability, and learning and motivation. Capabilities are often slippery constructs to convert into tangible actions for development. The six design drivers provide a logic bridge between a desired capability and the organization arrangements that support it.

Choose the Best Grouping Option

Design is an iterative process and requires developing and testing hypotheses. Often choices appear equally valid—each with a set of advantages and drawbacks. A number of tests that draw on information developed in the Business Case and Discovery phase can be used to select from among the options. These considerations include the degree of change and disruption, primacy (what needs to change first), the management team's capacity to manage complexity, what changes will have the biggest positive impact, what will be most visible to customers or employees, and the fit with the existing culture.

Embrace the Matrix

The matrix structure blends two or more of the classic design options into a single structure in order to gain the multiple benefits they offer. The matrix is unavoidable in most large multinationals today. It is often a necessary form of complexity, suited to executing complex objectives. Understanding the three basic forms of matrix can help when selecting one and anticipating the consequences. The first, at the simpler end of the spectrum and most common, has functions integrating across business units. The second type brings together front-end geographic or customer units (or both) together

with back-end product or function units (or both). The third, and often the most complex for executive teams to manage, seeks to gain the benefits of global product lines or customer accounts together with the local responsiveness of geographic units.

MILESTONE THREE: INTEGRATION

Milestone: You have tied the pieces together and defined power relationships

Grouping work into structural blocks creates boundaries that must be breached to deliver a “whole result”—for customers, partners, and shareholders. If leaders are to make smart business decisions, they must define the power relationships among the pieces. Collaboration and coordination are expensive in terms of management time and attention. Thoughtful choices with clear, cross-boundary decision rights are essential.

The operating model for the enterprise informs each of the five milestones, but particularly integration. The operating model answers these questions:

- How much authority will be delegated to operating units rather than managed from the center?
- How independent should operating units be from each other? How much integration and coordination are needed among them in order to deliver the necessary capabilities?
- What role will support functions play in the business, and with how much power and influence?

As organizations become larger and multidimensional, decision making typically becomes more complex and slower. When accountability is shared, the organization can also become risk-averse and may suboptimize decisions for the sake of

expedience. The goal of integration design is to allow managers and leaders to make better decisions without sacrificing speed.

Milestone Three: Integration, contains three chapters to help you design the most important points of linkage across boundaries.

Design for Operating Governance

The holding company and the single-product company sit on two ends of the operating model continuum. The continuum characterizes the extent of integration needed among the units of a given company. Most large, multinational, multiproduct companies do not function at either extreme, but rather operate somewhere in between with portfolios of related businesses that have varied degrees of interdependence, shared infrastructure, and autonomy.

Although tension among these units is natural, many executive teams are not a robust enough forum to resolve the competing claims that surface in a multidimensional organization. We have built on Robert Simons's levers-of-control model (1995) to implement new tools for governing the matrix, including using shared beliefs, interactive networks, boundaries, and diagnostic measures to balance power relationships in a matrix.

Allocate Power in the Matrix: A Case Study in Governance

This chapter presents a case study to illustrate how one company successfully used a variety of governance mechanisms to balance and shift power across the various dimensions of the matrix.

Redesign Functions to Be Integrators

When the business is organized by some combination of product line, customer or market, and geography, the functions become a form of integrating mechanism at the corporate level and across

the operating units. The classic staff functions—finance, IT, and HR—as well as business functions, such as marketing and supply chain, become the “glue” that links and leverages the organization. When well designed, these functions deliver the expertise and scale advantage that the large firm has over its smaller competitors.

Too many companies continue to struggle with unproductive conflict over power and role clarity between the operating units and the support functions. Without an integrating framework for designing these units, conflict arises over issues of centralization and decentralization. An effective framework aligns the design of the support functions with the corporate operating model to ensure that functions bring the right mix of oversight, linkage, thought leadership, and shared service support to the business.

MILESTONE FOUR: TALENT AND LEADERSHIP

Milestone: You have designed and staffed the critical roles and defined the work of the executive team

Organization and talent are the complementary engines of strategy execution. A poorly designed organization undermines the efforts of hard-working people, who waste their effort on overcoming internal barriers rather than creating new products or serving customers. Conversely, an elegant organization won't substitute for poor leadership and missing competence.

Milestone Four: Talent and Leadership contains two chapters to help you meet this milestone.

Design the Leadership Organization

Determining the number of positions and who will report to the leader in the new structure should be based on criteria that answer such questions as

- Where does the executive want and need to spend time, internally and externally? In what work can he or she add the most value?
- What is the extent and nature of dual reporting relationships that some team members may have to executives outside the unit?
- Where do jobs need to be positioned (vertically) in order to have necessary influence in the organization?
- Is the executive more comfortable with wide as opposed to narrow spans of control?
- What messages will be sent by placing given roles at the top versus lower in the structure?

Until the work of leaders in the new organization is defined, organization design is incomplete and unlikely to result in substantive change, especially when incumbents remain in the key positions. Executive roles should be spelled out in relationship to the business strategy and objectives that are driving the organization change. Leadership roles are also heavily influenced by the number of layers and the span of control that are embedded in the structure. Excess layers of hierarchy tend to result in narrower jobs with less freedom to act. As layers are removed, jobs should be widened with greater span of authority, with an eye to engaging high-potential leaders more fully.

Finally, not all leadership groups need to be teams, but nearly all need to interact effectively on some basis. The operating governance model of the business determines how closely the executives need to work together across the business units. When all the members have the same expectations about how often the group will come together and for what purpose, they will be more productive.

Make the Right Talent Choices

Organization redesign opens a window of opportunity to bring more or different talent into the business. Building substantially new capabilities often entails making changes in talent. Leaders must act with wisdom as well as courage. We encourage a mindset that ensures that the right people are in the right seats when the redesign is complete.

Capabilities and the design criteria, established by the first milestone, should inform staffing needs. Talent “pivot points” are those few and targeted skill sets that will have a disproportionate impact on results and achieving the business strategy. Like investments in new growth platforms, investments in new skills should not be allocated equally because not all skill sets have an equal impact on the capabilities you must create.

We counsel clients to avoid “designing around people” in the sense that design decisions should not be made to accommodate skill gaps in the existing organization. We do, however, design with talent in mind in order to ensure that roles are configured to provide the variety of experiences that will develop depth of competence and leadership. Many companies find that they are lacking a deep bench of well-rounded, general management talent that can move into executive roles. Organization design is an opportunity to design-in development positions; to create bigger, more challenging positions; and to establish experience paths among those jobs that can be used to grow future senior leaders.

MILESTONE FIVE: TRANSITION

Milestone: You are leading the change and are prepared to measure, learn, and adjust

We have observed that after the intensity of decision making during the first four phases of the organization design process,

the leader and the executive team are eager to get the organization back to work and to see the fruits of the design process. In their desire to refocus on the operating concerns of the business, momentum for the hard work of implementation can be lost. As a result, the full intent of the design is often not realized.

Milestone Five: Transition, contains two chapters that present the key learnings from our work in supporting the implementation of organization design.

Set the Implementation Plan

The final set of design decisions requires leadership to determine how best to stage the implementation and the sequencing of tasks. The chosen approach is influenced by the fundamental reason for change. If the company is currently healthy but the design change is driven by an anticipated change in strategy, then evolution can work well. Evolving over time to the new state, rather than abruptly changing everything, is less unsettling to employees, allows time to build new capabilities, and creates an orderly transition from the current core business to the new sources of growth and profitability.

However, there are circumstances where a “pull the Band-Aid off fast” approach may be warranted. If the strategy choices are clear, and competitive pressures make it critical to move swiftly to recover market share or to stem financial losses, moving quickly can often make sense. A fast realignment often makes sense when an external change has already occurred and the current organization design actually hinders making the right strategy choices for the future.

Choosing the right implementation approach and creating a project plan to stage the process so as to ensure that capabilities are built in a logical way and account for interdependencies are essential for a smooth transition.

Navigate the Transition

As soon as a basic transition plan is in place, leadership commitment to seeing it through becomes the defining factor in separating organization design changes that meet their objectives and those that fail because the new capabilities are never fully built. A full year of work, with significant leadership attention and involvement, is not unreasonable for a substantial reorganization.

Tipping points can be a useful tool to focus an executive team on the key points within the transition when a major step is needed. Tipping points in this context are tangible actions or decisions that are read by the organization as evidence that something very different is happening. Often they shift budget, authority, or decision rights from one unit to another; for example, global account leaders may be given veto rights in staffing of all sales roles in regions. Tipping points are symbolic actions because they have a disproportionate impact in altering power dynamics. In this way they are a powerful set of tools for executives to apply to guide, cajole, and course-correct their way through the transition plan.

CHAPTER ONE SUMMARY: THE FIVE MILESTONES

Although organization design is not a strictly linear process, it is very useful to follow a set of process steps that are applicable to large and small design initiatives. The five milestones represent markers that allow designers to plan and manage the process flexibly but with a clear road map.

- Milestone One: Business Case and Discovery
 - Clarify the strategic priorities
 - Define the case for change
 - Set the design criteria

- Milestone Two: Strategic Grouping
 - Use the six design drivers
 - Choose the best grouping option
 - Embrace the matrix
- Milestone Three: Integration
 - Design for operating governance
 - Allocate power in the matrix
 - Redesign functions to be integrators
- Milestone Four: Talent and Leadership
 - Design the leadership organization
 - Make the right talent choices
- Milestone Five: Transition
 - Set the implementation plan
 - Navigate the transition

