

# Organising for complexity

GILLIAN PILLANS explains the organisation design options for global enterprises to operate successfully in an increasingly demanding and fast-changing world

Today's large global firms operate in a complex world. They grapple with increasing market demands and stakeholder expectations, fundamental shifts away from a western-dominated economy towards emerging markets, new competitors around the world, and advances in technology. This has led to unprecedented levels of interconnectedness and a breathtaking pace of change – and global firms must adapt as rapidly.

What does this mean for organisation design (OD), the process of configuring all aspects of the business to achieve its financial objectives as well as outcomes valued by customers and employees?

Perhaps, at one time, organisations could have a core design that evolved slowly as they grew. Perhaps they could live with inefficiencies in an environment where customers were less well informed and had fewer choices, and where analysts and investors were not continually nipping at their heels. That benevolent world started disappearing several decades ago, with technology-led global integration, emerging opportunities in far-flung regions, new competitive pressures and industry convergence or obsolescence arising from disruptive innovations. Global organisations must be designed to deal with this complexity, and that means making informed design choices and dealing with the inevitable trade-offs.

Corporate Research Forum's recent report, *Emerging Approaches to Organisation Design*, co-authored with Dr Susan Mohrman of the Center for Effective Organizations, USC Marshall School of Business, considered the latest thinking on how to design organisations to deal with this complexity. Four key themes emerged.

## 1. A 'surgical' approach to OD

Most organisations start as a single, integrated business with a simple, functional structure. As they develop into multi-business, multi-market, multi-channel, multi-functional complex organisations, the simple organisation model cannot cope. Natural tensions arise between business units that want to control all the functions necessary for business success and the corporate centre focused on overall corporate performance and strategy. Complex

organisations are faced with the dilemma of whether to maximise the benefits of synergy and scale or focus resources to achieve responsiveness and specialisation. Balancing this is a key OD decision faced by complex businesses today. They grapple with issues such as:

- “ Should we allow business units to customise products and services for local markets or should development be co-ordinated globally?
- “ Should functions such as technology, supply chain and HR report to country managers or global heads?
- “ Do we have global customer teams to provide a consistent service to global clients or do we service customers from local markets, allowing for flexibility and responsiveness?
- “ How much discretion do we give to business units on when and how they launch products from R&D?
- “ What should be the role of the corporate centre?

One answer is to take a 'surgical' approach. This means considering from where best value can be obtained, allowing business units to operate independently with all the resources under their control to maximise performance in local markets, and co-ordinating activities centrally for maximum leverage. One telecommunications company developed global functions in technology, supply chain and multinational enterprise sales to achieve the benefits of scale. Local business units still manage the interface with local markets and customers and develop local business plans. Increasingly, however, they operate as the execution arm of a more integrated global system.

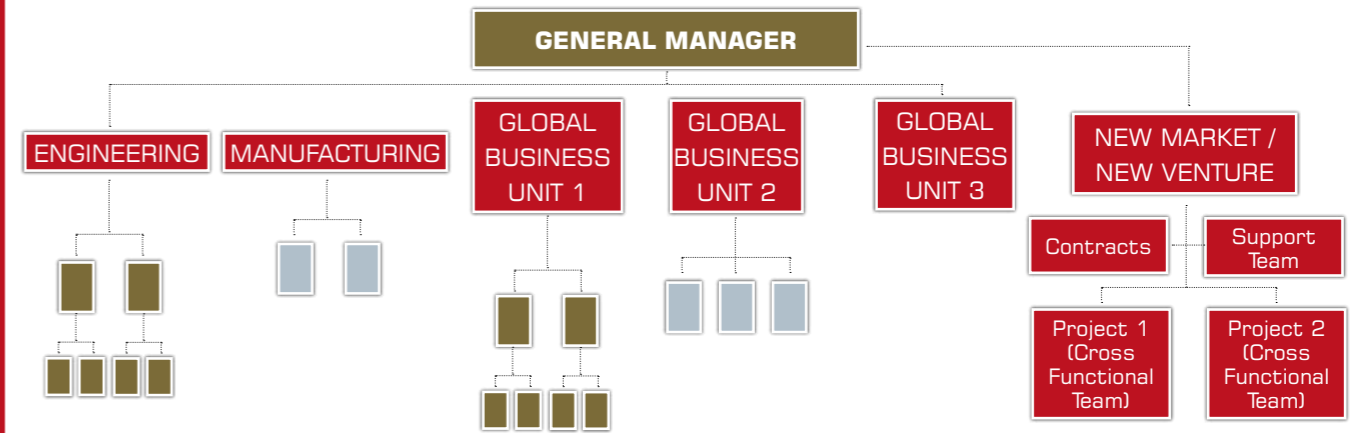
## 2. Complexity is driving emerging organisation forms

The classical pyramid-shaped organisation structure is taking a back seat to more innovative forms of OD, particularly when organising to deal with complexity.

**The organisation needs to be as complex as the businesses in which it operates and must change as fast as the context**

## THE 'AMBIDEXTROUS' ORGANISATION:

Designs in the capacity for two different kinds of performance



These emerging forms, some of which are described below, allow organisations to:

- “ scale up and down rapidly by tapping into external resource networks;
- “ achieve economies of scale in back-office operations while maintaining customer intimacy and responsiveness in the front office; and
- “ allow developing businesses freedom to grow without being constrained by bureaucracy.

### Virtual and network organisations

Emerging technologies, such as online marketplaces and social media, are enabling new organisation forms, which can be rapidly reconfigured or scaled up or down.

- “ Virtual organisations are an extreme form of outsourcing that involves retaining a small element of 'core' operations, with non-core activities provided by external partners. These firms are nimble and responsive to changes in their business environment.
- “ Network organisations bring together dynamic networks of contributors which may be located either in other parts of the organisation or externally. They can draw on much wider sources of talent and ideas than could otherwise be recruited directly.

### Front-back organisations

The 'back end' of the organisation – including operations, R&D and supply chain – are structured for efficiency and operational excellence, the 'front end' for customer intimacy, responsiveness, customisation and revenue growth.

### Ambidextrous organisations

The 'ambidextrous organisation' involves establishing separate operating units for activities that are not part of the core business or need to be given space to grow (see diagram above). This approach is effective for:

- “ developing new business models that would be

starved by the organisation's normal processes for allocating resources and setting targets; and

- “ ensuring the needs of innovative businesses are not neglected in favour of feeding the core business.
- Ambidextrous units can develop their own distinctive cultures and operating practices while having access to corporate resources and the support of senior executives.

## 3. Go lateral

Many organisation charts look ordered and structured, but they seldom reflect reality. In today's organisations, processes, project teams and networks cut across formal boundaries. These make up the 'lateral organisation', which is a key – and sometimes neglected – aspect of how organisations function (see diagram, p56). In complex, fast-changing businesses, lateral mechanisms that cut across the formal hierarchy allow decisions to be made at speed and devolved to those with best customer knowledge.

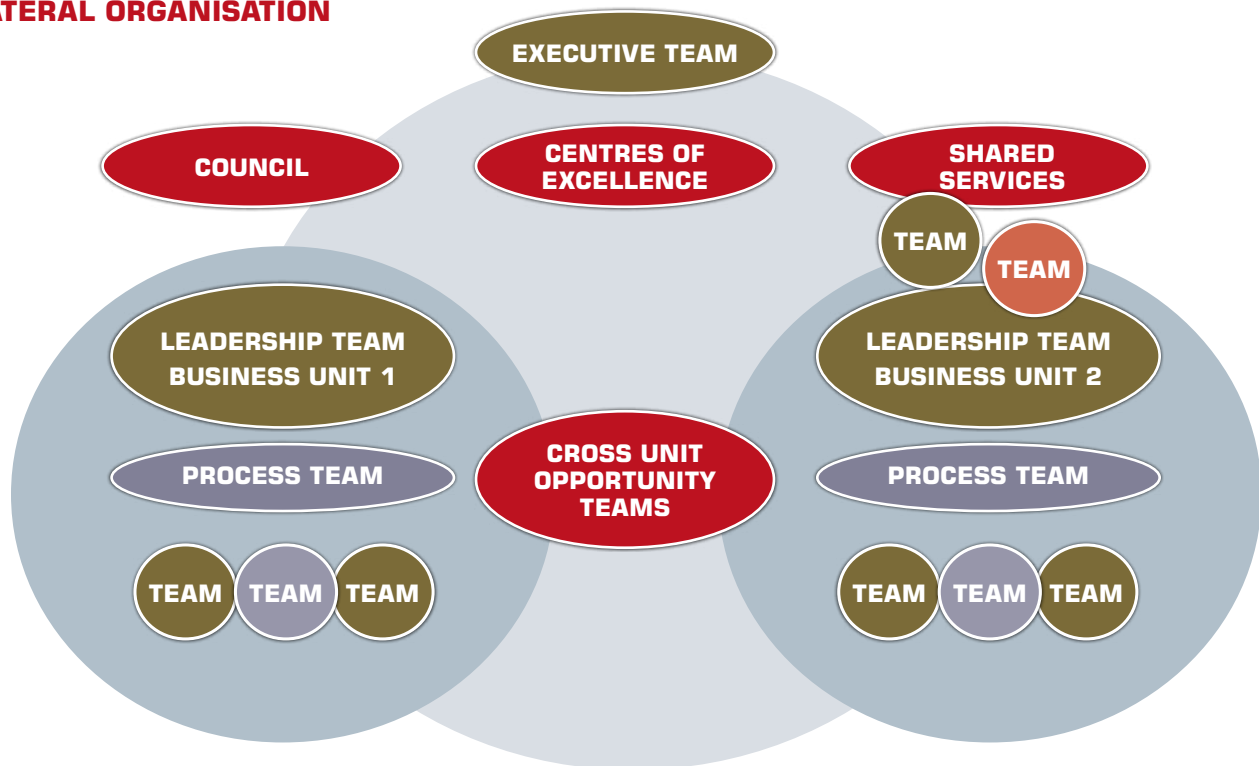
Although cross-functional teams, processes and informal networks exist in all large businesses, the key point is that the lateral organisation needs to be explicitly designed with the same degree of rigour as the vertical structure. This means:

- “ setting up and managing networks, teams and processes in a systematic way;
- “ providing the right level of resource and support; and
- “ establishing governance procedures that are effective without being overly onerous.

This is an area where the complex matrix structures adopted by many global businesses often fail. They give too little consideration to how work is really done, and they become clunky and unworkable in practice.

As the lateral organisation becomes more important, the role of the corporate centre has to adapt. This becomes less about top-down control and more about making connections and defining the values and strong sense of purpose that can unite far-flung parts of the organisation.

**LATERAL ORGANISATION**



**4. Beyond hierarchy – governance in a complex world**

The banking crisis demonstrated how badly things can go wrong when governance is weak. It showed that, given how complex and interconnected the modern business world is, traditional hierarchy-driven controls are inadequate and a new approach to governance is needed.

Governance frameworks must achieve several objectives:

- “ aligning behaviour throughout the organisation with laws and societal norms and expectations;
- “ aligning behaviour with the company’s standards, values, strategy and objectives;
- “ reflecting the reality of how work is done in practice through the ‘lateral organisation’; and
- “ resolving tensions between disparate parts of the organisation with conflicting views of the world, so that decisions are consistent with the overall interests of the firm.

Companies are by no means abandoning traditional controls such as budgets, targets and operational reviews. But these are complemented increasingly with a range of ‘hard’ and ‘soft’ approaches to governance.

- “ Decision-making councils and boards comprising representatives of the units involved in a particular project or initiative allow decisions to be decentralised. These cut across the formal organisation hierarchy and bring decisions closest to those who understand the issues involved and business implications.
- “ In interconnected organisations, individuals make

decisions daily that affect other functions or teams. It is unrealistic to expect every decision to be referred ‘up and across’ the organisation. Therefore many firms are focusing on developing governance or values frameworks that define the principles and standards by which individuals should behave. These allow for a fluidity of activities across different divisions, but form a ‘glue’ that drives cohesion and a shared sense of purpose.

It may be desirable to have a simple, understandable structure. But in practice, the organisation needs to be as complex as the businesses in which it operates, and must be capable of changing as fast as the business context. Designing organisations to deal with complexity is fraught with tensions and contradictions. The answer is not to choose one solution over another. It is to find the right balance of autonomy, control and co-ordination to support business strategy delivery. **HR**

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